



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

CITY CAMPUS

P.O. Box 62157
00200 Nairobi - KENYA
Telephone: 891601-6
Fax: 254-20-891084
E-mail: academics@cuea.edu

MAIN EXAMINATION

AUGUST - DECEMBER 2016 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

EVENING PROGRAMME

CFI 313: PUBLIC FINANCE

Date: DECEMBER 2016

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Public finance is a field of economics concerned with how a government raises money, how that money is spent and the effects of these activities on the economy and society. You are required to identify and briefly explain at least six important functions public finance plays in an economy. **(6 Marks)**
- b) Most theories in economics and finance are grounded on key assumptions. You are required to enumerate the assumptions that guide 'Principle of Maximum Social Advantage' in public finance. **(6 Marks)**
- c) The canons of public expenditure are the fundamental rules which govern the public expenditure policy of governments. You are required to identify and briefly explain six canons of public expenditure. **(6 Marks)**
- d) NPV is one of the most reliable techniques used in appraising capital budgeting for both private and public projects. Explain the meaning of NPV and enumerate the formulae used in NPV clearly expounding the meaning of each component in the formulae. **(6 Marks)**
- e) Governments can use different tax structures to collect revenue. Hence, taxes can be levied on a regressive basis, a progressive basis or proportional basis. Explain each of the above mentioned tax structures as applied in Kenya **(6 Marks)**

- Q2. a) Growth in government spending has been on a general increasing trend globally. Some of the important theories that explain the general growth in public expenditure in governments are i) Adolph Wagner's hypothesis, and ii) Wiseman–Peacock hypothesis. Illustrate how these theories explain the increasing trend in public expenditure? **(12 Marks)**
- b) The doctrine of government efficiency is one of the prime reasons why 'Directorate of Public Debt Management' was established in Kenya. Identify and briefly explain at least eight functions of the Directorate. **(8 Marks)**
- Q3. Taxes are compulsory payments to government without expectation of direct return or benefit to tax payers. The solution for efficient taxation is clearly stated in the 'Ramsey Rule.' You are required to identify and briefly explain the Assumptions guiding Ramsey Rule of Efficiency and the criticism of the Ramsey Rule for Taxation. **(20 Marks)**
- Q4. a) Briefly explain the principles of taxation **(10 Marks)**
b) Briefly explain the effects of public expenditure on production **(10 Marks)**

END