



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND  
TECHNOLOGY SCHOOL OF HEALTH SCIENCES  
UNIVERSITY EXAMINATION FOR DEGREE IN BUSINESS  
ADMINISTRATION  
4<sup>TH</sup> YEAR 1<sup>ST</sup> SEMESTER 2016/2017 ACADEMIC YEAR  
NAMBALE**

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**COURSE CODE:            ABA 402**

**COURSE TITLE:            PUBLIC FINANCE AND FISCAL POLICY**

**EXAM VENUE:            STREAM: (BBA)**

**DATE: 00/04/2017**

**EXAM SESSION:**

**TIME:**

**2.00 HOURS**

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**Instructions:**

- 1. Answer ALL questions in Section A and ANY other 2 Questions in section B.**
- 2. Candidates are advised not to write on question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

### QUESTION ONE

- (a) Discuss the role of public finance in economic development. (8 Marks)
- (b) Differentiate between monetary and fiscal policy. (4 Marks)
- (c) Examine the relationship between public and private expenditure in a developing economy. (8 Marks)
- (d) State the benefits of preparing a budget. (6 Marks)
- (e) Differentiate between budget deficit and surplus. (4 Marks)

### QUESTION TWO

- (a) What are the key characteristics of a good tax system? (10 Marks)
- (b) Identify and explain the options available for raising funds to finance government activities. (10 Marks)

### QUESTION THREE

- (a) What are the advantages of payback period (PBP) (5 Marks)
- (b) ABC Ltd has approached you for advice as it wishes to expand its operations by purchasing a new machine worth Khs. 170,000. The installation cost are estimated to be Kshs. 40,000 and in the fourth year the machine will call for an overhauled which will cost Kshs. 80,000. The expected inflows are as follows:-

YEAR	KSHS.
1	60,000
2	72,000
3	35,720
4	48,510
5	91,630
6	83,713

The company can raise finance to purchase the machine at 12% interest rate. Compute the NPV and advice the management accordingly. (15 Marks)

### QUESTION FOUR

- (a) Discuss Wagner's Laws of State activities. (10 Marks)
- (b) Explain the factors that determine a nation's taxable capacity. (10 Marks)

### QUESTION FIVE

- (a) What is MM Proposition 1? (5 Marks)
- (b) What are its key assumptions? (5 Marks)
- (c) Firm L's value is Kshs. 12,500, value of its equity is Kshs. 7,500 and the value of its debt is Kshs 5,000. Calculate the firm's WACC. (10 Marks)