



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**SCHOOL OF BUSINESS & ECONOMICS**  
**UNIVERSITY EXAMINATION FOR BACHELOR OF BACHELOR OF BUSINESS**  
**ADMINISTRATION (With IT) 4<sup>TH</sup> YEAR SEMESTER I**  
**MAIN Campus**

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**COURSE CODE: AEC 402**

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

**VENUE:**

**STREAM:**

**DATE:**

**EXAM SESSION:**

**TIME: 2 HOURS**

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**INSTRUCTIONS:**

- 1. Answer Question ONE (COMPULSORY) and ANY other 2 questions**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

### **QUESTION ONE.**

- a) Explain why government intervention in the provision of public good/services is important in Kenya today? **(8 marks)**
- b) Examine the relationship between high debt levels and macroeconomic instability? **(8marks)**
- c) Bring out the differences between internal and external debt public debts? **(6 marks)**
- d) Explain the theories of taxation and their relevance in the context of a middle income economy like Kenya? **(8 marks)**

### **QUESTION TWO**

- a) Discuss some of the challenges faced by public accounts committee of parliament in providing the oversight role on the prudent use of public funds in Kenya? **(12marks)**
- b) In view of the recent justification for continued borrowing to finance public projects, would you say that the public investment committee of parliament has been effective as the public investment oversight authority? Discuss. **(8 marks)**

### **QUESTION THREE**

- a) Treasury proposed the removal of interest rate cap in the last budget. However parliament declined to pass that bill. Discuss the main arguments advanced by treasury and parliament for their action. **(12 marks)**
- b)The national treasury has been accused of not being innovative in mobilizing revenue to finance public expenditure hence burdening the poor citizen with high taxation. Discuss. **(8 marks)**

### **QUESTION FOUR**

- a) Discuss measures that you would propose to the Kenyan government to reduce the public expenditure without compromising economic growth and service delivery. **(10 marks)**
- b) Would you say that devolution was a wrong move hence the current clamor for reduction of the counties from 47 to eight? Discuss the economic reasons behind these changes in thinking among the Kenyans. **(10 marks)**

### **QUESTION FIVE**

a) Discuss the theories of public expenditure in light of the recent governments move to tax Kenyans to finance the low cost housing? **(10 marks)**

b) One of the jubilee governments' agenda four items is universal health care. It is documented that only 40 percent of health care provision is by public sector and that over 60 percent of the Kenyan population live on less than a dollar a day. In your reasoned view, what are the problems bedeviling health care provision in Kenya. Discuss citing relevant examples. **(10 marks)**

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**DEPARTMENT OF MANAGEMENT AND ECONOMICS**  
**AEC 402: PUBLIC FINANCE AND FISCAL POLICY:**  
**Course Instructor S. OYIEKE**

**Course Description**

This is a course that explores the theories and practices in government financing of the provision of public goods. It looks at the financing needs, options, spending and their implications to the overall economy.

**Course Objectives:**

**The objectives of this course are to:**

- a) Analyze the relationship between public finance and fiscal policy
- b) Understand the function of budgets in guiding public expenditure
- c) Understand the effects of financing options on the economy
- d) Analyze the relationship between government expenditure and type of government

**Expected Learning Outcomes**

At the end of this course, the student expects to be able to: i) appreciate the budgeting process and challenges, ii) critically analyze the financing options and their efficiency, and iii) explain the relationship between the political environment and fiscal function of government.

<b>Lecture Week</b>	<b>Broad Topic</b>	<b>Contact Hours</b>	
<b>One &amp; Two</b>	<b>Introduction</b> Definition and various types of public sector finance – Similarities and non-similarities – Public finance and economic system	<b>6 Hrs</b>	<b>One</b>
<b>Two</b>	<b>Public Revenue</b> – What is a tax?, tax base – Buoyancy and elasticity of a tax – Principles of taxation – Characteristics of a good tax system and objectives of taxation in LDCs	<b>3 Hrs</b>	<b>Three</b>
<b>Three</b>	<b>Tax Burden</b> – Introduction – Theories ; ability to pay theory, objectives indices of ability to pay, subjective indices of ability to pay – Optimal taxation, taxable capacity-short run factors and long run factors – Usefulness of taxable capacity	<b>3 Hrs</b>	<b>Four</b>
<b>Four</b>	<b>Classification and Choices of Taxes</b> – Single Vs Multiple tax system – Proportional Vs progressive tax system (arguments for & against)	<b>3Hrs</b>	<b>Five</b>

– Direct Vs indirect taxes (arguments for and against)  
 – Effects of taxation (production and growth, different taxes, supply of resources, distribution, inequality, economic stabilization).

**Five Public Debt 3Hrs Six**

- Meaning of public debt, private debt
- public debt and economic growth, inflation, economy regulation
- Public debt and taxation

**Six Public Expenditure 6 Hrs Six & Seven**

– Meaning and nature of public expenditure  
 – Theories of public expenditure; Wagner’s law of increasing state activities, Peacock hypothesis, the critical limit hypothesis.  
 – Demand and supply of government service  
 – Comparison between private and public expenditure  
 – Pure theory of public expenditure, kind of public expenditure, canons of public expenditure, and effects of public expenditure.

**Seven Public Budget 3Hrs Eight**

- Introduction
- Types of budgets, importance of budgets
- Causes and implications of budget deficits

**Sit-in-test 2 Hrs Nine**

**Eight Public finance and devolved government 3 Hrs Ten**

**Nine Relationship between public finance and fiscal policy and private investment 3 Hrs Eleven**

### Required Reading

Gruber, J.C.(2009). *Public Finance and Public Policy*, Worth Publishers USA.

### Other Readings

- 1) Hayman, D.N. (2010). *Public Finance: A Contemporary Application of Theory to Policy*, South-Western College Publishers. USA.
- 2) Cauvery, R. (2010). *Public Finance: Fiscal Policies*, S. Chand and Co. LTD. India.
- 3) Ulbrich, H.H. (2011). *Public Finance in Theory and Practice*, Routledge. USA.
- 4) *Journal of Development Planning*
- 5) *IMF Staff Papers*
- 6) *Journal of Development Economics*
- 7) *Journal of African Finance*
- 8) *Journal of Economics and Finance*

### Teaching Methodology

Class lectures, problem solving, group exercise

### Course Assessment

Continuous Assessment	30%
Semester Examinations	70%
Total	100%

