



Strathmore
UNIVERSITY

STRATHMORE BUSINESS SCHOOL
MASTER OF SCIENCE IN DEVELOPMENT FINANCE
END OF SEMESTER EXAMINATION
MDF 8108: PUBLIC SECTOR FINANCE

Date: Monday 23rd August 2021

Time: 3 Hours

Instructions

1. This examination consists of **FOUR** questions. ALL questions carry equal marks
2. Answer **ANY THREE** questions.

Question 1 (20 marks)

- a. Briefly explain the six phases of the Public Finance Management cycle. **(6 marks)**
 - b. Governments are not only concerned about enhancing revenue collection to finance increasing budgetary needs but also consider how the taxes affect market efficiency. Suppose the government has to choose among the following options:
 - (i) Imposing VAT at the standard rate of 16% on basic commodities such as milk, bread and flour, which were previously zero-rated
 - (ii) Increasing excise tax on alcohol and tobacco products
 - (iii) Introducing a one-off lumpsum annual income tax payment
- a. For each of the options, use a diagrammatic representation to discuss the implications of the tax proposal on market efficiency and income redistribution. **(9 marks)**
 - b. Which option(s) would you recommend and why? Please rank the options. **(5 marks)**

Question 2 (20 marks)

- a. The government of Kenya has been running fiscal deficits over time. Using a graphical presentation, discuss the effect of the fiscal deficits on the credit markets **(8 marks)**
- b. Suppose Mary is in formal employment and she earns KShs. 70,000 per month. She pays income tax (Pay As You Earn-PAYE) which is deducted by her employer. On the other hand, Jane sells second hand clothes in Gikomba and earns the same amount as Mary monthly. Jane pays presumptive tax at a rate of 3 percent of gross proceeds.

- (i) Discuss the principle that you will use to determine the income tax burden of Mary and Jane **(6 marks)**
- (ii) Given Jane's and Mary's tax positions, can we say that the income tax is equitable? Explain and identify the type of equity or inequity. **(6 marks)**

Question 3 (20 marks)

- a. Many African countries have made considerable progress in reforming their public financial management systems. A review of the African Financial Governance Outlook revealed several areas of improvement. Briefly discuss any five areas that require improvement. **(10 marks)**
- b. The city of Nairobi is considering building a new park. It has polled the residents and estimated that the about 10000 people will have access to the park annually. The people are divided into three groups, members of which would individually be willing to pay the following amounts for the park:

Number of residents	Amount each willing to pay (KShs.)
2,000	100
3,500	300
4,500	500

It is estimated that the cost of accessing the park will on average increase by KShs. 50 per year to take care of inflation. The estimated cost of developing the park is KShs. 6 million with annual maintenance fees of KShs. 300,000. Using a discount rate of 10 percent over a 10-year period, advise the county government on whether to build the park or not.

(10 marks)

Question 4 (20 marks)

- a. The county government of Nairobi is in the process of upgrading their housing facilities that were previously owned by the City Council of Nairobi. They are faced with a decision of upgrading the houses and reallocating them to their staff or replacing the housing benefit with a housing allowance. Which option should the county take and why? Use a graphical representation to explain your answer. **(10 marks)**
- b. Using the Kenyan devolution experience, discuss the elements of fiscal decentralization. **(10 marks)**