STRATHMORE BUSINESS SCHOOL

MASTER OF DEVELOPMENT FINANCE

SPECIAL EXAMINATION

MDF 8108: PUBLIC SECTOR FINANCE

DATE: Tuesday 21st April 2026 **TIME: 3** Hours

Instructions

1. This examination consists of **SIX** questions.
2. Answer **QUESTION ONE and any other THREE** questions.

QUESTION ONE **(30 Marks)**

(i) Distinguish between tax evasion and tax avoidance **(4 marks)**

(ii) Suppose the government runs a budget surplus. Briefly discuss the effect of the budget surplus on the credit market **(6 marks)**

(iii) Due to the increase in fiscal deficits, the government is considering several additional sources of revenue. Comment and rank the following sources of revenue by considering their effect on efficiency and redistribution. **(8 marks)**

a) Increasing Value Added Tax on basic necessities
b) Increasing excise tax on luxury products
c) Introducing a turnover tax on the informal sector.

(iv) Suppose the government increases tax on alcoholic beverages, which have somehow inelastic demand, explain how the tax burden will be borne between the supplier and the consumer. Use a graphical representation **(8 marks)**

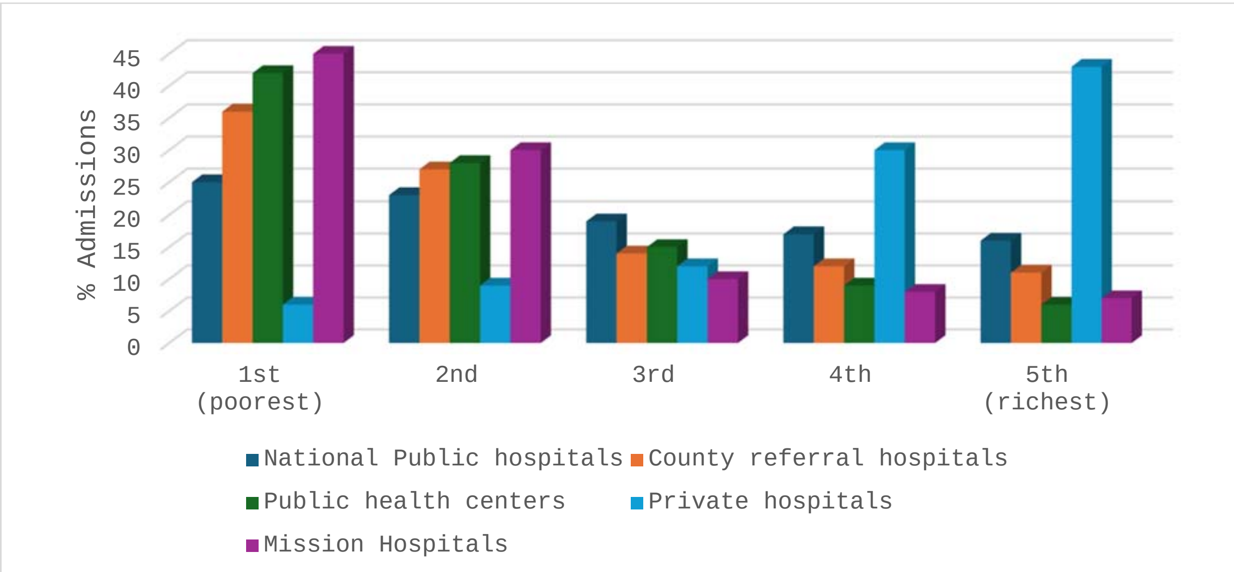
(v) Briefly discuss the equity-efficiency trade-off of government programmes that aid the poor **(4 marks)**

QUESTION TWO (10 Marks)

In a mixed economy, the government supplies a considerable amount of goods and services and regulates private economic activity. Using a diagrammatic representation of the circular flow of income, describe the interactions between the government, enterprises and households. **(10 marks)**

QUESTION THREE (10 Marks)

Below is data on admissions in different health facilities in Kenya. Interpret the data and explain whether health spending is progressive.



QUESTION FOUR (10 Marks)

Briefly discuss **FIVE** elements of fiscal decentralization. **(10 marks)**

QUESTION FIVE (10 Marks)

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)**

QUESTION SIX (10 Marks)

(i) Discuss **TWO** typical issues and problems that are encountered when designing transfer programs within the context of fiscal decentralization. **(4 marks)**

(ii) Explain the Medium-Term Expenditure Conceptual framework. **(6 marks)**