



**Strathmore**  
UNIVERSITY

**STRATHMORE BUSINESS SCHOOL**

MASTER OF DEVELOPMENT FINANCE

**END OF SEMESTER EXAMINATION**

**MDF 8108: PUBLIC SECTOR FINANCE**

**Date:** Friday 2<sup>nd</sup> August 2024

**Time:** 3 Hours

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**Instructions**

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

**Question 1 (Compulsory (30 marks))**

The government of Banguyi is a lower middle income country that has moderate rates of growth. The country mainly relies on domestic resource mobilisation and borrowing (domestic and external to finance its budget. While the government has made considerable efforts in enhancing revenue collection, the tax base is narrow largely because of a large informal sector. In the recent past, the national government has incurred large budget deficits, which has necessitated an increase in revenue mobilisation (through addition taxation measures) and domestic borrowing through issuance of treasury bills and bonds. In addition, the country is working to reform its public finance management system. The country has a devolved system of governance, where the sub-national governments generate revenue and prepare & execute budgets.

- a) 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)**
  - i. Increasing excise tax on luxury products
  - ii. Introducing a motor vehicle tax
  - iii. Introducing a turnover tax on the informal sector.
- b) Briefly explain any three purposes of a good public finance management system **(6 marks)**
- c) Suppose the government is planning to increase taxes on cigarettes which have inelastic demand and payroll taxes which are elastic. Using diagrammatic representation,

compare and contrast how tax burden will be shifted between the consumer/employee and supplier/employer. **(8 marks)**

d) What do you understand by fiscal decentralisation? Briefly discuss any three elements of fiscal decentralization. **(8 marks)**

**Question 2 (10 marks)**

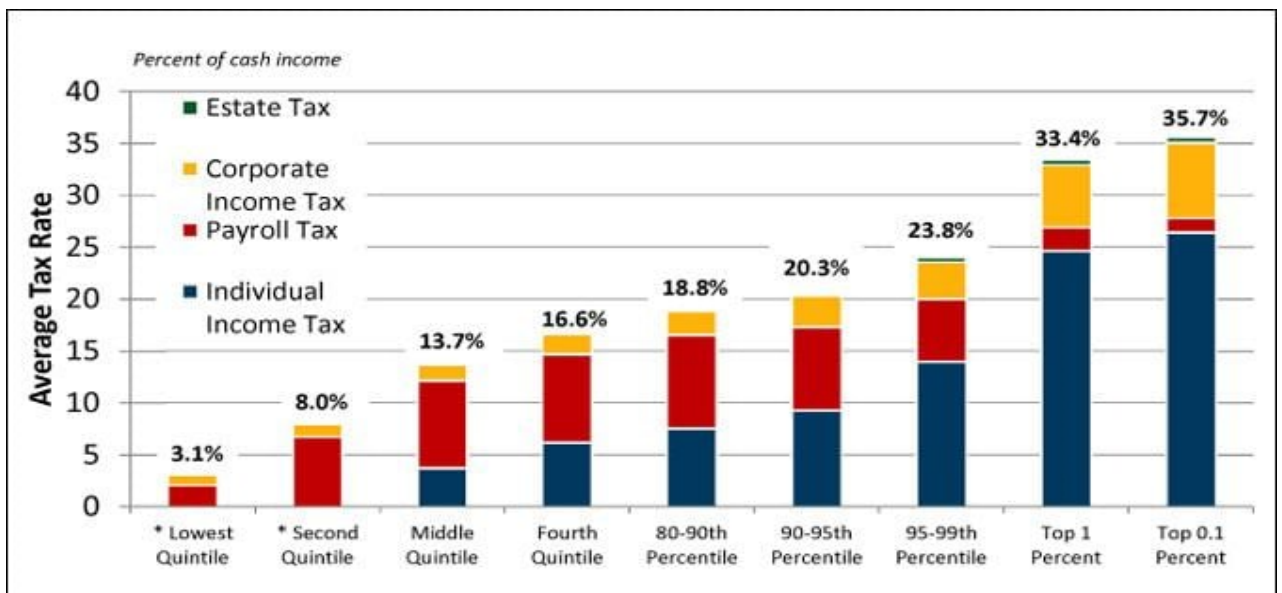
Briefly discuss the budget cycle, clearly identifying the the four stages and seven pillars.

**Question 3 (10 marks)**

- i. Distinguish between incremental budgeting and programme based budgeting **(4 marks)**
  
- ii. Suppose there is excess supply of rental houses, diagramatically explain how the burden of the increase in rental income tax will be shared between the landlord and tenant **(6 marks)**

**Question 4 (10 marks)**

The diagram belows shows a summary of the tax incidence analysis of individual income tax, payroll tax, corporate income and estate taxes. Interpret the findings and explain whether each of the taxes is regressive or progressive. (note that the lower part of the bar chart is individual income tax, followed by payroll tax, corporate tax and the top is estate tax).



**Question 5 (10 marks)**

Briefly discuss the effects of fiscal deficits on credit, savings, investment and economic growth.

**Question 6 (10 marks)**

- i. Suppose Mary owns a 1300cc car and consumes about 40 litres of fuel per month. As a result, she pays about 1,000 shillings in fuel levies. On the other hand, John owns a 3000cc car and consumes about 160 litres of fuel per month. As a result, he pays about 4,000 shillings in fuel levies. Discuss the principle that you will use to determine the tax burden of Mary and John **(4 marks)**
  
- ii. Discuss the three basic tasks that the Medium Term Expenditure Framework (MTEF) seeks to achieve **(6marks)**