



**The Co-operative University College of Kenya**  
(A Constituent College of Jomo Kenyatta University of Agriculture & Technology)

**END OF SEMESTER EXAMINATIONS APRIL - 2015**

**EXAMINATIONS FOR BACHELOR OF CO-OPERATIVE BUSINESS YEAR III**  
**SEMESTER II**

**UNIT CODE: HCOB 2343**

**UNIT TITLE: FINANCIAL MANAGEMENT IN PUBLIC SECTOR**

**DATE:** \_\_\_\_\_ **TIME:** \_\_\_\_\_

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**INSTRUCTIONS:**

Answer question **ONE** (compulsory) and any other **TWO** questions

**QUESTION ONE**

- a) The free rider problem of public goods is such that everybody wishes to enjoy goods which they did not participate in their production. Explain Three solutions to the free under problem (6 Marks)
- b) Many economic uses pareto efficiency as a measure of social welfare. Explain what it means for an economy to be pareto efficient and any conditions that must be met for this efficiency to be achieved (4 Marks)
- c) From a Kenyan perspective. Explain the problems that the Government faces in the provision of public goods and suggest ways through which such problems may be resolved (10 Marks)
- d) Explain FIVE (5) characteristics of a good tax system (10 Marks)

**QUESTION TWO**

- a) Explain the rationale of zero based budgeting and programming planning budgetary systems for a developing economy like Kenya (10 Marks)
- b) In 2010 Kenya adopted a new constitution which among other things introduces the devolved system of government. Explain the budgetary process in light of the new constitution requirements (10 Marks)

**QUESTION THREE**

- a) External borrowing is necessary in today's economies. Explain the benefits of external debt and how it affects the economy (10 Marks)

- b) Using relevant examples in Kenya, explain various categories of government failure and how it can lead to a misallocation of public resources (10 Marks)

#### QUESTION FOUR

- a) Explain the following concepts: -
- i. Pareto efficiency (4 Marks)
  - ii. Incidence of taxation (4 Marks)
  - iii. Principles of maximum social advantage (4 Marks)
  - iv. Fiscal policy (4 marks)
  - v. **Manual** failure (4 Marks)

#### QUESTION FIVE

- a) What is public finance (5 Marks)
- b) Explain the effect of the introduction of VAT on consumable products on: -
- i. Production
  - ii. Distribution    Economic stability (15 Marks)