



# MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM

MANAGEMENT

DEPARTMENT OF ECONOMICS

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 301 TAXATION ECONOMICS AND POLICY

**DATE: 27/7/2023**

**TIME: 2.00-4.00 P.M**

**INSTRUCTIONS:**

- (i) Answer question one (Compulsory) and any other two questions
- (ii) Do not write on the question paper
- (iii) Show your working clearly
- (iv) Written material or electronic gadgets including mobile phones are not allowed in exam room.

**QUESTION ONE (COMPULSORY) (30 MARKS)**

a) Distinguish between the following terms

- i. Personal taxes and in rem taxes. (2 marks)
- ii. Statutory incidence and effective incidence of a tax. (2 marks)
- iii. Tax evasion and tax avoidance. (2 marks)
- iv. Vertical equity and horizontal equity in taxation. (2 marks)
- v. Tax burden and tax liability. (2 marks)

b) Interpret and explain the Tax concept mentioned in each of these statements:

(12 marks)

- i. The Revenue Authority imposes 20% tax on the amount paid for Income tax by Senior Staff members and 15% tax on the amount paid for Income tax by Junior Staff. This leads to the senior staff reducing their total utility by 10% while junior staff utility reduces by 8%. (3 marks)
- ii. Your salary increases by 10% but the amount collected as tax increases by 9%.

(3 marks)

iii. The Revenue Authority imposes 18 % tax on the amount paid for Income tax by Senior Staff members and 12% tax on the amount paid for Income tax by Junior Staff. This leads to the senior staff reducing their total utility by 10% while junior staff utility also reduces by 10%. (3 marks)

iv. My salary increase by 10% but the amount collected as tax increases by 12%. (3 marks)

b) Explain how an increase in corporation tax would affect economic activity in a country. (8 marks)

### **QUESTION TWO (20 MARKS)**

a) Distinguish between taxable capacity and tax effort. (4 marks)

b) Explain how each of the following factors influence tax effort in developing countries.

i.) Share of agriculture in GDP. (2 marks)

ii.) Share of manufacturing. (2 marks)

iii.) Openness of the economy. (2 marks)

c) Using examples of types of taxes levied in your country, explain the conditions under which benefit tax criteria is feasible. (10 marks)

### **QUESTION THREE. (20 MARKS)**

a) Use the partial equilibrium approach to describe the effect of an increase in income taxation on labour supply. (10 marks)

b) Explain the characteristics of a good tax system. (10 marks)

### **QUESTION FOUR (20 MARKS)**

a) Explain the issues that motivate and shape tax reforms in developing countries. (12 marks)

b) Citing appropriate examples, describe the causes of tax evasion in Kenya. (8 marks)

### **QUESTION FIVE (20 MARKS)**

a) Explain the concept of tax shifting. (5 marks)

b) Discuss how the following factors determine the taxable capacity of a country

(i) Distribution of income. (5 marks)

(ii) Size of population. (5 marks)

(iii) Political conditions. (5 marks)