# UNIVERSITY EXAMINATIONS

## 2ND SEMESTER 2023/2024 ACADEMIC YEAR

### THIRD YEAR EXAMINATION FOR THE DEGREE BACHELOR OF SCIENCE IN ECONOMICS AND STATISTICS

### ECON 225:  TAXATION ECONOMICS AND POLICY

*STREAM:* ECON-STAT                                    *TIME: 2 HRS*

*DAY: WEDNESDAY [2.30-4.30 P.M]*          *DATE: 10/04/2024*

**THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES**

**PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.**

**Instructions:**

1. Answer Question **ONE** and any other **TWO** questions.
2. Question **ONE** is compulsory carries **30 marks** and all other questions carry **20 marks** each.
3. Ensure your handwriting is neat and legible. Also ensure that your sentences are grammatically correct.

## Question 1

a) Canons of taxation are the principles that define a good tax system. Explain **FIVE** canons of taxation. **(10 Marks)**

b) Use appropriate diagrams to distinguish between equal absolute sacrifice and equal proportional sacrifice, under ability to pay principle of taxation. **(10 Marks)**

c) Suppose when an individual's income ($I_0$) is KES150,000 the Pay As You Earn (PAYE) tax ($T_0$) is KES15,000 and when the income ($I_1$) is KES200,000 the PAYE tax ($T_1$) is KES25,000. Compute the values of tax progressiveness using the two formulas for analyzing tax progressiveness. **(10 Marks)**

## Question 2

(a) Explain **TWO** methods that can be used in calculating tax effort. **(6 Marks)**

(b) Distinguish between direct taxes and indirect taxes. **(4 Marks)**

(c) Explain **FIVE** sectoral compositions that affect the tax share of an economy. **(10 Marks)**

## Question 3

(a) Distinguish, using appropriate diagrams, the indifference curve approach and the compensated demand curve approach of measuring excess burden of a tax. **(10 marks)**

**(b)** Explain **FOUR** concepts of tax incidence. **(8 marks)**

(c) What is tax effort? **(2 marks)**

## Question 4

(a) Explain **FOUR** internal factors that cause debt crisis in developing countries. **(8 Marks)**

(b) Briefly explain the Tax Evasion Model. **(4 marks)**

**(c)** Explain **FOUR** objectives that can be realized by taxation policy. **(8 Marks)**

## Question 5

(a) What is public expenditure? **(2 Marks)**

(b) Explain **FIVE** methods that a government can adopt in its pursuit of debt redemption.

**(10 Marks)**

(c) Explain **FOUR** factors that motivate tax reforms in developing countries. **(8 Marks)**