

**University of Swaziland
Final Examination Paper (Main 2005)**

Title of Paper : Public Sector Economics

Course Code : ECON 405

Time Allowed : Three (3) Hours

Instructions :

- 1. Answer Four Questions, Two from Section A and Two from Section B.**
- 2. All Questions Carry Equal Marks of 25 each.**

DO NOT OPEN THIS QUESTION PAPER UNTIL THE INVIGILATOR HAS GRANTED PERMISSION.

SECTION A

QUESTION 1

- (a) Carefully outline the rationale for government involvement in the economy. (15marks)
- (b) Discuss any three ways used to measure the size of government. Highlight disadvantages of each method. (10 marks)

QUESTION 2

- (a) "There are four major reasons for the systematic failure of government to achieve their stated objectives". Discuss. (10 marks)
- (b) "Government is fundamentally different from other institutions in our society? Do you agree? Support your answer. (5 marks)
- (c) Richard Musgrave, one of the great public finance economists of the 20th century, thought of government as having three economic branches. Discuss these branches. (10 marks)

QUESTION 3

- (a) Outline the major components of public expenditures. (5 marks)
- (b) Analyse the microeconomic foundations of the decision process that gives rise to public spending. Do these supply and demand factors explain the long term upward trend in public spending in Swaziland? (20 marks)

Question 4

- (a) In most, if not all, economies local governments rely upon central government transfers through grants-in Aid. Why do central governments give grants-in Aid? (10 marks)
- (b) With the aid of a diagram, analyse the effect of a matching grant on the output decision of a local government. (15 marks)

SECTION B**QUESTION 5**

Write concise explanatory notes on each of the following:

- (a) Tax evasion and tax avoidance
- (b) International and local public goods
- (c) Tiebout hypothesis
- (d) Characteristics of externalities
- (e) Exchange efficiency

(5 marks each)

QUESTION 6

- (a) According to the Swaziland Public Enterprise Act, there are two types of public enterprises. Explain, giving two examples for each category.
- (b) Using information contained in the budget speeches for the last 2 years regarding parastatals, comment on their performance and the major areas of concern for Swaziland as an attempt is made to improve their performance.

(7 marks)

(18 marks)

QUESTION 7

- (a) Enumerate the main differences between the ability to pay and benefit principles of taxation.
- (b) What is the main purpose of indexing income taxes?
- (c) Briefly summarize the canons of a good tax system.

(6 marks)

(4 marks)

(15 marks)

QUESTION 8

- (a) Employing a partial equilibrium approach, and assuming small income effects, analyse the effects of levying a unit tax on output of a competitive industry. This tax is assumed to raise the supply price. Use a graph to show the excess burden, consumer and producer's surpluses. Be sure to define these clearly.

(18 marks)

- (b) "More generally, we find that both the incidence and the excess burden of a tax depend on supply and demand elasticities". Do you agree with this statement? Support your answer.

(7 marks)