

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ECONOMICS

FINAL EXAMINATION 2006

TITLE OF PAPER: PUBLIC SECTOR ECONOMICS

COURSE CODE: ECON 405

**INSTRUCTIONS: ANSWER FOUR (4) QUESTIONS:
TWO QUESTIONS IN SECTION A AND TWO
QUESTIONS IN SECTION B**

TIME ALLOWED: THREE(3) HOURS

**THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS
BEEN GRANTED BY THE INVIGILATOR**

SECTION A

Question 1

“ Government intervenes mainly because of market failure to allocate resources efficiently in the economy as portrayed under Pareto Optimality. What are the main causes of market failure?

[25 marks]

Question 2

Outline the main functions of government. Use examples from the Swaziland economy
[10 marks]

Alongside the literature on market failure, there is growing literature on government failure. Explain the main sources of government failure.

[15 marks]

Question 3

Use Partial equilibrium analysis to compare the provision of a pure public good and a private good. State all relevant assumptions made in the analysis. [25 marks]

Question 4

With the aid of diagrams, explain how allocation inefficiencies may arise as a result of bureaucracy in the provision of public goods.

[15 marks]

Explain the Principal –Agent problem in the context of the public sector.

[10 marks]

SECTION B

Question 5

- a) What would constitute a good tax?
[7 marks]
- b) Critically evaluate the following principles of taxation:
i) Benefit Principle
ii) Ability – to - Pay Principle
[9 marks each]

Question 6

- a) Discuss the economic advantages and disadvantages of fiscal decentralization
[10 marks]
- b) Using a graph, analyse how an open ended matching grant given to Manzini City council would affect its spending decisions.
[10 marks]
- c) Name any two organizations that are exempt from paying property tax in Swaziland. What is the rationale behind the exemption?
[5 marks]

Question 7

Compare and contrast the effects of the Pay As You Earn (PAYE) tax, the General Sales Tax (GST) and the Value Added Tax (VAT).

[25 marks]

Question 8

Summarize the policy issues raised with regard to public expenditures and revenues in Swaziland's most recent budget speech.

[25 marks]