

**UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS
FINAL EXAMINATION, MAY 2007**

TITLE OF PAPER : PUBLIC FINANCE

COURSE CODE : ECON 405

TIME ALLOWED : THREE (3) HOURS

INSTRUCTIONS :

- 1. ANSWER ANY FOUR QUESTIONS FROM EACH SECTION.**
- 2. ALL QUESTIONS CARRY EQUAL MARKS OF 25 EACH.**

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Choose any FOUR Questions:

QUESTION 1

Briefly explain the following concepts.

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|-----|-------------------------|-----------|
| (a) | Pareto optimality | [5 marks] |
| (b) | Public good | [5 marks] |
| (c) | Free rider problem | [5 marks] |
| (d) | Ability-to-pay approach | [5 marks] |
| (e) | Benefit approach | [5 marks] |

QUESTION 2

- (a) What are the main functions of the public sector in any economy? [15 marks]
- (b) What are the main courses of market failure? [10 marks]

QUESTION 3

- (a) What are the main features of the Peacock and Wiseman model for public expenditure growth? [10 marks]
- (b) Explain the micro factors underlying growth in public expenditure. [15 marks]

QUESTION 4

- (a) What are the benefits and disadvantages for fiscal decentralization? [15 marks]
- (b) In most economies, local government rely upon central government transfers through grants-in-aid. Why do central governments give grants-in-aid? [10 marks]

QUESTION 5

- (a) What are the qualities of a good tax system? [7 marks]
- (b) With the aid of diagrams, compare and contrast the effects of a tax system under a competitive market environment to that of a monopolistic environment. [18 marks]

QUESTION 6

- (a) Using an aid of a diagram, show the impact of bureaucracy on public output? [12.5 marks]
- (b) Using the partial equilibrium approach, show how an efficient output level of a public good would be determined. [12.5 marks]