

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ECONOMICS

FINAL EXAMINATION 2008

TITLE OF PAPER: PUBLIC SECTOR ECONOMICS

COURSE CODE: ECON 405

INSTRUCTIONS: 1. ANSWER TWO QUESTIONS FROM SECTION A AND TWO QUESTIONS FROM SECTION B.

2. ALL QUESTION CARRY 25 MARKS EACH.

TIME ALLOWED : THREE (3) HOURS

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

SECTION A

Question 1

- a) Outline the main functions of government. Use examples from the Swaziland economy [10 marks]
- b) Critically discuss three major theories of public expenditure growth. [15 marks]

Question 2

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 3

- a) Discuss the economic advantages and disadvantages of fiscal decentralization [10 marks]
- b) Using a graph, analyze 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 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) A Specific tax is imposed on each producer in a competitive industry, with the aid of diagrams demonstrate the impact of the tax on:

- (i) Producers
- (ii) Consumers

[10 marks]

(b) Describe tax incidence in a competitive industry in the case where the specific tax per unit of output is levied on consumers of the product.

[10 marks]

(c) Are consumers better off in case 1(a) or case 1 (b)?. Explain.

[5marks]

QUESTION 6

(a) "The amount by which price rises i.e. the extent to which consumers bear a tax depends on the shape of the demand and supply curves, not on whom the tax is levied" Discuss [25 marks]

QUESTION 7

a) Using a public enterprise of your choice, critically describe the governing structure, successes and challenges of the organization.. (20 marks)

b) How can the effectiveness of this organization be increased? (5 marks)

Question 8

Summarize the policy issues raised with regard to public expenditures and revenues in Swaziland's 2008 national budget speech.

[25 marks]