

**UNIVERSITY OF SWAZILAND  
FINAL EXAMINATION PAPER, 2013**

**TITLE OF PAPER : ECONOMIC AND SOCIAL ANALYSIS OF  
PROJECTS**

**COURSE CODE : ECON 309**

**TIME ALLOWED : TWO (2) HOURS**

**INSTRUCTIONS : 1. ANSWER QUESTION 1 AND TWO  
OTHER QUESTIONS:**

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GRANTED BY THE INVIGILATOR.**

**Question 1 (Compulsory)**

- a) Critically discuss the concepts of Shadow rate of interest and Shadow wage rate. [8 marks]
- b) Explain the Arrow-Lind Theorem. What are the limitations of this theorem? [9 marks]
- c) With the aid of examples, define negative and positive externalities in consumption and production.. [8 marks]
- d) With the aid of a diagram, explain the welfare effects of a per unit tax aimed at reducing the impact of a negative externality in production. [8 marks]
- e) Use the Minimax Regret criterion to select the best strategy to reduce losses under conditions of uncertainty. Use the payoff matrix provided below:

<b>N =</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>S = 1</b>	4	4	2	3
<b>2</b>	2	2	2	2
<b>3</b>	2	6	2	3
<b>4</b>	3	5	2	2

Where N = Possible state of nature  
S = Strategy

[7 marks]

**Question 2**

- a) Investment analysts argue that discounted measures of project worth are superior and preferred to undiscounted measures. Do you agree with this view? Support your answer. [5 marks]
- b) Discuss the components of an evaluation report. [20 marks]

**Question 3**

- a) What is Sensitivity Analysis? Describe the purpose of Sensitivity Analysis.  
[ 8 marks]
- b) Provide a detailed discussion of the areas to which projects are normally sensitive.  
[ 17 marks]

**Question 4**

- a) Why should projects be evaluated?  
[ 7 marks]
- b) Discuss the six phases in project evaluation.  
[ 18 marks]

**Question 5**

With the aid of examples from the Swaziland economy, discuss the rationale for state intervention in economic activity.  
[ 25 marks]