University of Swaziland

Faculty of Social Science

Department of Economics

Final Examination Paper, December 2012

Title of paper	:	Public Finance I
Course Code	:	Econ 408
Time allowed	:	Three (3) hours
Instructions	:	1. Answer four (4) questions.
		2. All questions carry equal marks of twenty five (25) each.

Do not open this paper until the invigilator has granted permission.

Question 1

Critically discuss the three (3) macroeconomic models of public expenditure growth. Comment on the relevance of these models to the Swaziland economy.

(25 Marks)

Question 2

a) Distinguish between X-inefficiency and Allocative inefficiency.

(7 marks)

b) With the aid of a diagram, explain how inefficiency in an economy may arise as a result of government bureaucrats being utility maximisers.

(18 Marks)

Question 3

a) Critically discuss the Tiebout model of fiscal decentralisation.(10 Marks)

b) With the aid of diagram compare and contrast the effects of an unconditional grant and a matching grant on local government spending decisions.

(15 marks)

Question 4

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? (25 marks)

Question 5

Discuss the rationale for the intervention of the government of Swaziland in the economic activity. Discuss also the effectiveness of three strategies undertaken by government to address social and economic challenges of the country. (25 marks)

Question 6

a) What do you understand by the term 'Median Voter'? Explain briefly why increases in public expenditure is explained by an increase in the median voter's income.

(10 Marks)

b) Using a graph, explain how equilibrium public expenditure is determined.

(15 Marks)