

**UNIVERSITY OF SWAZILAND
FACULTY OF SOCIAL SCIENCE
DEPARTMENT OF ECONOMICS**

SUPPLEMENTARY/RE-SIT EXAMINATION PAPER: JULY 2018

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

COURSE CODE: ECO304/ECON 309

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

1. Answer Question 1 and any other Two (2) questions.
2. Question 1 is marked out of 40 marks whilst the rest of the questions are marked out of 30 marks each.

**DO NOT OPEN THIS QUESTION PAPER UNTIL THE INVIGILATOR HAS GRANTED
PERMISSION.**

Question 1_ (Note: This Question is Compulsory)

- a) Distinguish between a unilateral and reciprocal externality and give two examples of each. [10 marks]
- b) Explain how negative externalities can be remedied using the following corrective measures:
- Pigouvian taxes
 - Regulatory limits
 - Merging [20 marks]

Note: give an example in each case

- c) What is the basis of the argument that government is “neutral” in as far as the scale of projects she undertakes is concerned. [10 marks]

Question 2

- a) Explain the concepts of risk pooling and risk spreading. [8 marks]
- b) Given the following information about two projects A and B:

	Project A		Project B	
	Probability	Net Present Value	Probability	Net Present Value
Economic Recession	0.2	£100	0.2	£1100
Economic Prosperity	0.8	£2000	0.8	£1750

Assuming that both projects have an initial outlay of £1000, calculate the expected net income of the projects and state which project would be preferred. Justify your answer. [10 marks]

- c) Describe **THREE** methods which businesses can use to analyze and assess the risk that exists in its decision-making. [12 marks]

Question 3

- a) Explain the Scitovsky Paradox and Kaldor-Hicks compensation principles.
[10 marks]
- b) Using the Maxi-min criterion, determine the decision to be taken under conditions of uncertainty given the following pay-off matrix:

		STATES OF NATURE		
		A	B	C
ACTIONS	1	20	40	180
	2	-40	100	220
	3	60	70	90

- [10 marks]
- c) Explain how the best strategy is selected using the minimax regret criterion. Use the pay-off table in (b) to select the best strategy on the basis of this criterion.
[10 marks]

Question 4

- a) As an economist, explain the stages or circumstances and timing in which you can conduct an evaluation.
[12 marks]
- b) Some people argue strongly against placing monetary value on human lives. Explain their reasons for adopting this stand.
[8 marks]
- c) In most circumstances market prices do not reflect the real scarcity values of resources. Does it mean that market prices are of no relevance in the social appraisal of the project?
[10 marks]