UNIVERSITY OF SWAZILAND

FACULTY OF SOCIAL SCIENCE

DEPARTMENT OF ECONOMICS

MAIN EXAMINATION PAPER

DECEMBER, 2017

TITLE OF PAPER: PUBLIC FINANCE 1

COURSE CODE: ECON 408

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS: 1. ANSWER QUESTION 1 (COMPULSORY) AND ANY OTHER TWO QUESTIONS.

2. START EACH QUESTION ON A NEW PAGE.

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Question 1 (Compulsory Total 30 marks)

a) Discern between exhaustive and non-exhaustive public expenditure.   (5 marks)

b) Outline how lack of information, incomplete markets, non-competitive markets, and friction and lags result in market failure.   (10 marks)

c) Discuss **any four** factors that have led to growth in public expenditure in Swaziland over the years.   (10 marks)

d) State the current (2016/2017 fiscal year) ratios for government revenue and government expenditure as proportions of GDP.   (5 marks)

Question 2

a) Do you support the contention that simple majority rule does not produce outcomes representative of the majority view? Discuss with reference to the impossibility theorem and the phenomenon of vote trading.   (15 marks)

b) Outline Peacock and Wiseman's displacement effect.   (5 marks)

Question 3

a) Outline **any two** unintended effects of Pigovian taxes used to correct for the effects of externalities.   (5 marks)

b) Externalities result in market failure. Explain this statement assuming a positive production externality. Use a diagram to support your answer.   (15 marks)

Question 4

a) Identify any three objections to the unanimity voting rule.   (5 marks)

b) Using a diagram, discuss the equilibrium for the provision of a pure public good, using a partial equilibrium analysis. Be sure to outline the efficient pricing rule for public goods and private goods.   (15 marks)