

**UNIVERSITY OF ESWATINI  
FACULTY OF SOCIAL SCIENCE  
DEPARTMENT OF ECONOMICS  
MAIN EXAMINATION  
NOVEMBER 2018**

TITLE OF PAPER: PUBLIC FINANCE 1

COURSE CODE: ECO 405/ECON 408

TIME ALLOWED: TWO (2) HOURS

INSTRUCTIONS:

- 1) ANSWER QUESTION 1 (COMPULSORY) AND THEN CHOOSE TWO QUESTIONS FROM THE REMAINING QUESTIONS.

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BY THE CHIEF INVIGILATOR.

### Question 1 COMPULSORY (TOTAL 40 MARKS)

- a) The table below provides a comparison of the key features of public and private goods. Complete the missing details: (10 marks)
- b) Using a graph analyse the effect of a negative production externality and the impact of remedial government intervention. (10 marks)
- c) Social security systems enable consumption smoothing. Explain. (5 marks)
- d) Comment on the budgetary sustainability of the social assistance given by the government of Eswatini currently. (5 marks)
- e) In your opinion are Adolph Wagner's model and the stages of development approach by Musgrave relevant in explaining public spending changes that have been observed over time in Eswatini? Explain. Be sure to provide a clear outline of these approaches (10 marks)

### Question 2

- a) Outline the benefits of privatising state owned enterprises? Support your answer using examples from Eswatini. (10 marks)
- b) Several challenges have been identified on both revenue and expenditure sides of the fiscal budget in Eswatini. Enumerate any three of these (for both sides). Use current data where appropriate. (10 marks)

### Question 3

- a) Perverse incentives are created by social security programmes. Use a graph to show the consequence of an income transfer on work effort. (10 marks)
- b) How has the government financed fiscal deficits for the past two fiscal years? What is the current fiscal deficit as a % of GDP in Eswatini? (5 marks)
- c) List any two strategies that have been identified by the government of Eswatini to reduce budget deficits? In your opinion are these effective? Clarify.(5 marks)

### Question 4

- a) Define in-kind transfers. Explain why conditional cash transfer programmes are preferred. How suitable is such a programme for Eswatini. Support your answer clearly. (5 marks)
- b) Outline the structure-conduct performance hypothesis and its relevance in the creation of competition policies. In your answer make a case for competition policy in Eswatini. Provide an example where such a policy was used in the past in Eswatini.(10 marks)
- c) Outline Coase's theorem as an alternative to solving externalities. (5 marks)