"Investing in Africa's Future"

COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

COURSE CODE AND TITLE: MEC 206/MAC 206-Public Sector Economics/Principles of Public Finance

END OF FIRST SEMESTER EXAMINATION

MAY 2019

LECTURER: Mr L. NGENDAKUMANA

DURATION: 3 HOURS

INSTRUCTIONS

Answer **any Five questions.**
Total possible mark is 100
Start **each** question on a new page in your answer booklet.

The marks allocated to **each** question are shown at the end of the section.

Show all your workings.

Credit will be awarded for logical, systematic and neat presentations.

Question One

After classifying the following as direct tax, indirect tax or non- tax sources of government revenues, define each one of them:

(i)   Value Added Tax (VAT)
(ii)   Corporate tax
(iii)   Excise duty
(iv)   Penalties
(v)   Dividends tax
(vi)   Customs duties
(vii)   Capital gains tax
(viii) Fines
(ix)   Income tax

[20]

Question Two

a. An externality is believed to be one of the causes of market failure. Assess this statement using well labelled diagrams of positive and negative externalities. Provide solid justifications to support your answers   **[12]**

b. After defining the concept of market failure, suggest correctives measures which can be implemented by the government to overcome such problem   **[8]**

Question Three

a. Distinguish between pure public goods and impure public goods using their most salient characteristics. Give three clear examples of each of such goods   **[15]**

b. Given the answer in (a) explain why the market fails to provide pure public goods.
[5]

Question Four

  i.   The annual demand for cigarettes in some Gabon is given by the following equation:

$$P = 25 - \frac{Q^D}{4000}$$

Where Q_d is the quantity of cigarette packs demanded per year, and P is the price per pack of cigarettes. The supply of a pack of cigarettes is given by the equation

$$P = \frac{Q^S}{6000}$$

Suppose that a $2 tax per pack of cigarette is levied on the price of cigarette received by sellers.

a. Using both graphical and algebraic techniques show the impact of the tax on market equilibrium. **[4]**

b. Calculate the following:

  (i) Deadweight loss of the tax, **[2]**

  (ii) The amount of tax revenues collected **[2]**

  (iii) The incidence of the tax between the buyers and sellers. **[2]**

ii. Monopoly production generates a deadweight loss and income redistribution. What do you understand by this concept? Use a graph in your explanation **[10]**

Question Five

a. State and explain the role of each of the three arms of the government in the budgetary process **[10]**

b. Briefly outline the importance of policy framework for enhanced participation of the three arms of government in the budgetary process **[10]**

Question Six

a. Distinguish between the functions and objectives of your government budget. Provide any 5 functions and objectives of a government budget **[13]**

b. After defining a budget reform, explain its importance **[7]**

Question Seven

a. State and explain income inequality and provide its measurements. **[10]**

b. What are the causes of such income inequality explained in pat (a)? **[10]**

End of paper