"Investing in Africa's Future"

COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

COURSE CODE AND TITLE: MPM 220- Public Sector Economics

END OF FIRST SEMESTER EXAMINATION

NOVEMBER 2019

LECTURER: Mr L. NGENDAKUMANA

DURATION: 3 HOURS

INSTRUCTIONS

Answer **any Five [5] 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

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

b. What are the effects of such income inequality explained in pat (a) on societies? [10]

Question Two

a. Define and explain the functions of public budget   [10]

b. Outline and explain the effects government budget on the public services.   [10]

Question Three

a. Using well labeled diagrams on taxes and subsidies, show that distributional effects of the tax and subsidy on both consumers and producers differ.   [15]

b. Use the answers in (a) to explain under what circumstances should a government implement the two   [5]

Question Four

a. Distinguish between positive and negative externalities and suggest 3 correctives measures which can be implemented by the government to overcome the problem caused by an externality   [10]

b. Using graphs of both negative and positive externalities, show how the two lead to market failure   [10]

Question Five

a. Distinguish between the major sources of government revenues and give 3 examples of taxes falling into each of the two categories.   [10]

b. Which one of the two types of taxes in (a) is commonly used by African governments? Explain your answer   [10]

Question Six

a. Distinguish between pure public goods and impure public goods. Give three clear examples of each of such goods   [14]

b. Why do people need government intervention to correct the problem of market failure caused by the existence of public goods   [6]

Question Seven

a. It is believed that people need governments. State and explain the rational for a modern state.   **[10]**

b. Explain and illustrate these concepts
        (i)   An externality   **[2]**
        (ii)   A Subsidy   **[2]**
        (iii)   An external cost   **[2]**
        (iv)   A free rider problem   **[2]**
        (v)   A unit tax   **[2]**

End of paper