AFRICA UNIVERSITY

A United Methodist-Related Institution

"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

PSM 535: PUBLIC FINANCE

END OF FIRST SEMESTER EXAMINATIONS

APRIL/MAY 2017

LECTURER: G. MANDEWO

DURATION:(3 HRS)

INSTRUCTIONS

Answer **ALL** questions in Section A and any three questions in Section **B.** 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 question.

Show all your workings.

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

SECTION A

1. In light of your discussion, assess the relative merits of the following three statistical inequality measures:

          (a) Relative mean deviation **[4 Marks]**

          (b) Coefficient of variation **[4 Marks]**

          (c) The McLoone Index **[4 Marks]**

2. (a) Consider an economy with two persons A & B and two goods 1 & 2 Draw this economy in an Edgeworth box, putting good 1 on the *x*-axis and good 2 on the *y*-axis. Identify the initial endowment. Sketch in some indifference curves for each consumer.
(b) Show that the initial endowment is not Pareto efficient. **[4 Marks]**
(c) Determine various ways in which the two Consumers A & B can foster Pareto efficiency **[4 Marks]**
(d) Discuss the First and the Second theorem of welfare economics in the context of the above illustration   **[8 Marks]**

3. Performance in Government of Zimbabwe is managed through Results Based Management. Outline the various important aspects of this performanace management system. **[12 Marks]**

SECTION B

4. "The median voter theorem requires too many restrictive assumptions to be of practical use."

       a. Explain the median voter theorem. **[10 Marks]**

       b. Evaluate the statement given above. **[10 Marks]**

5. The government is planning to fund a new order of helicopters for the army.

       a. Explain how the government's calculations of the costs and benefits of this policy might differ from those that the private sector would use. **[10 Marks]**

       b. Discuss the extent to which public sector cost-benefit analysis is likely to produce an efficient allocation of public expenditure. **[10 Marks]**

6. Explain how public sector cost-benefit analysis can deal with each of the following issues and evaluate the methods available in each case.

       a. The purchase of construction materials from a monopolist. **[8 Marks]**

       b. Valuing life. **[6 Marks]**

       c. The choice of an appropriate social discount rate **[6 Marks]**

7. What are the critical issues to be considered in intergovernmental assistance (IGA) and cash management systems (CMS)? **[20 Marks]**

8. Taxation is the main method used by governments to collect revenues. Explain the following concepts in taxation

       a. tax base **[4 Marks]**

       b. vertical and horizontal equity in taxation **[4 Marks]**

       c. tax avoidance and tax evasion **[4 Marks]**

       d. direct taxes **[4 Marks]**

       e. tax rebates **[4 Marks]**

10. With reference to the Zimbabwean budget cycle trace events that make up the cycle. **[18 Marks]**

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