FACULTY OF MANAGEMENT AND ADMINISTRATION

COURSE TITLE: MAC 206 PRINCIPLES OF PUBLIC FINANCE

SEMESTER 2:   FINAL EXAMINATION APRIL 2017

LECTURER: MR. L. NGENDAKUMANA

TIME: 3 HOURS

INSTRUCTIONS

Answer **all questions in section A and TWO 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 section.

Show all your workings.

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

SECTION A

Question 1

a. Distinguish between the mechanistic and organic views of the government [7]

b. "Modern governments provide a variety of services via the budget". Assess this statement using the various categories of those services and briefly define each one of them [6]

c. Outline and briefly explain the various sources of government revenues [5]

Question 2

(a) Using 4 clear examples of impure public goods, discuss the characteristics of each one of them [8]

(b) State any 4 examples of pure public goods and provide solid justification for your choices [6]

(c) Using the characteristics of pure public goods explain why the private market fails to provide such goods [6]

Question 3

A workshop designed to retain workers 55 years of age and older who have lost their jobs is proposed. Suppose the workshop will increase the income of each participant by $ 2000 per year for a period of 3 years.

a. Calculate the present value of the increased income per participant with each of the following discount rates: 5 percent and 10 percent. [3]

b. If the cost per participant is $ 10 000 and all those costs are incurred in the second year, using the present value and the benefit-cost ratio methods under which interest rates the project would be accepted? [6]

c. Why is the choice of discount rate (low or high) important in project evaluation and selection? [3]

SECTION B

Question 4

a. Using demand and supply numerical equations of a given commodity and a unit tax levied on the price received by sellers, use both graphical and algebraic techniques to show the impact of the tax on market equilibrium, the excess burden of the tax, the amount of tax revenues collected, and the incidence of the tax between the buyers and the sellers. [10]

b. Using appropriate tools, show that despite its market power, a monopoly is affected by a unit tax. [5]

c. "Incidence of tax depends on whether tax is imposed on the consumer or on the producer". Assess this statement using well labeled diagrams as a basis for your arguments [10]

Question 5

a. Explain the concept of market failure and its various causes. Explain why there is need for government intervention when a society is faced with the problem of market failure [8]

b. Use 2 clear examples to define and distinguish between pecuniary and technical externalities [4]

c. Given the following statement: "the inefficiencies associated with externalities can be linked to the absence of a market for the externality for the relevant resource". Discuss. [3]

d. Using well labeled diagrams on Pigouvian taxes and subsidies show that distributional consequences of the tax and subsidy differ. [6]

e. State and explain five solutions that can be implemented by the government to overcome externalities. [4]

Question 6

(i) Explain why you believe that government support of higher education is or is not justified? What type of support do you favor? [12]

(ii) Distinguish between the mechanistic and organic views of the government [5]

(iii) a. We often talk about the size of the government. Define the "size of government and briefly explain its measurements? [4]

b. Outline and explain the strengths and weaknesses of such measurements in part (a) [4]

End of Paper