



**AFRICA  
UNIVERSITY**

*(A United Methodist-Related Institution)*

***"Investing in Africa's Future"***

**COLLEGE OF BUSINESS, PEACE, LEADERSHIP &  
GOVERNANCE**

**COURSE TITLE: MEC 206/MAC 206 PUBLIC SECTOR ECONOMICS/  
PUBLIC FINANCE**

**SEMESTER 2: END OF SEMESTER EXAMINATION MAY 2018**

**LECTURER: MR. L. NGENDAKUMANA**

**TIME: 3 HOURS**

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***INSTRUCTIONS***

Answer any five questions of your choice.  
Total possible mark is 100.

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Start **each** question on a new page in your answer booklet.

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

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Show all your workings.

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



### Question One

- a. State and explain two alternative views as to how the government [5]
- b. Explain the various types of government expenditures [6]
- c. After defining the concept of size of government, state and explain its measurements. [6]
- d. What is the more sensible and common approach to measuring the size of the government? Why? [3]

### Question Two

- a. After explaining any three cost- benefit analysis' techniques used for project appraisal, outline the admissibility requirements for a project appraisal in each one of the three criteria [12]
- b. What are the problems associated with the use of each one of the three as a guide for a project selection? [4]
- c. Why is the choice of discount rate (low or high) important in project evaluation and selection? [4]

### Question Three

- a. We often talk about the size of the government. Define the "size of government and briefly explain its measurements? [5]
- b. Outline and explain the strengths and weaknesses of such measurements in part (b)[3]
- c. "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]
- d. Outline and briefly explain the various sources of government revenues [6]



#### Question Four

- a. Distinguish between pure public goods and impure public goods using the most salient characteristics [8]
- b. Give three clear examples of each one of such goods in (a) [6]
- c. Given the answer in (b) explain why the market fails to provide pure public goods. [4]
- d. Explain the concept of “Free rider’s problem” [2]

#### Question Five

- a. Using well labeled diagrams on Pigouvian taxes and subsidies, show that distributional consequences of the tax and subsidy differ. [8]
- b. State and explain problems associated with implementing each one of the following solutions to externality: (i) Pigouvian taxes (ii) subsidies. [5]
- c. “The inefficiencies associated with externalities can be linked to the absence of a market for the externality for the relevant resource”. Discuss the given statement. [3]
- d. Use a well labeled diagram/graph to illustrate the analysis of positive externality [4]

#### Question Six

- a. “Equity principle of taxation” is said to be a basic criterion for tax- structure design. Explain this statement basing your argument to the objective of equity. [6]
- b. Using a diagram, explain the Coase theorem and how it is used as a measure for externalities’ solution. [6]
- 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 [8]

*End of paper*