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FACULTY OF MANAGEMENT SCIENCES  
DEPARTMENT OF ECONOMICS  
2005/2006 FIRST SEMESTER EXAMINATION

COURSE: ECO 307: PUBLIC FINANCE

INSTRUCTION: (1) ATTEMPT ALL QUESTION IN SECTION A AND B AND ANY ONE FROM SECTION C  
(2) THINK WELL BEFORE ANSWERING, BECAUSE ANY CANCELED OR ALTERED ANSWER WILL BE SCORED ZERO

TIME ALLOWED: 1 HOUR 15 MINUTES

SECTION A

- i. All of these are principles already used in Nigeria for revenue sharing among the various tiers of government except:  
(a) Principle of Needs (b) Principle of Even Development (c) Principle of Land Area  
(d) Principle of absorptive Capacity.
- ii. Externalities can be produced by ..... as well as .....  
(a) Individuals; Firms (b) Market prices; Market incomes  
(c) Oceans; Streams (d) None of the above
- iii. Which of the following is a public good?  
(a) Public defense (b) Public television (c) Community Library  
(d) All of the above
- iv. Which of these is not a source of government revenue?  
a. Taxation b. Money creation c. Borrowing from the credit market  
d. Printing of money
- v. Which of these is not an advantage of Zero-Base Budgeting System?  
a. It avoids the problem of incrementation that unnecessary expenditure is continued without consideration.  
b. It provides a strong base for budgeting and planning by reducing the tendency of having obsolete expenditure items in the budget since it takes a fresh look each item based on current conditions.  
c. It ensure a "Value for Money" approach since there is consideration for alternative approaches in the decision package and promotes efficiency.  
d. It emphasizes on short-term benefits to the detriment of long-term benefits.
- vi. Borrowing leads to;  
a. Creation of new purchasing power (b) Redistribution of purchasing power  
c. Transfer of purchasing power (d) a and b only
- vii. Taxes placed on goods and services with the sole aim of discouraging its consumption is called (a) Ad valorem Tax (b) Consumption tax (c) Sumptuary tax (d) Value-added tax
- xiii. Which of these statements is correct? When government prints money  
a) There is a shift of purchasing power  
b) There is a creation of new purchasing power  
c) None of the above  
d) All of the above
- ix. A balanced budget is present when  
a) The economy is at full employment  
b) The actual level of aggregate spending equals the planned level of pending  
c) Public sector spending equals private sector spending  
d) Government revenues equal expenditures
- x. Indirect taxes may be preferred to direct taxes because they  
a) They are less likely to distort the choice between work and leisure  
b) Will have little impact on the pattern of demand  
c) Will result in a more even distribution of income  
d) Are unlikely to raise the prices of goods and services
- xi. A regressive tax is defined as one which require  
a) High income earners to pay more in tax than low income earners  
b) High income earners to pay a higher proportion of their income in taxes than income earners



- c) All taxpayers to pay the same absolute amount of their income in taxation  
 d) High income earners to pay a lower proportion of their income in taxes than low income consumers.
- xii. All but one of these is not a purpose of budgeting in the public sector  
 a) It serves as an aid in the determination of government activities to satisfy preference of the people.  
 b) It serves as a mechanism for ensuring adequate control over expenditure and revenue  
 c) It is a way of causing dispute between the executive and legislative arms of government in a democratic system of government.  
 d) It serves as a yardstick against which actual performance of the public sector can be measured
- xiii. Inflation can also be referred to as:  
 (a) Private tax (b) Public tax (c) Hidden Tax (d) Sumptuary tax
- xiv. Which of these is not a type or form of externality?  
 a. Pecuniary externality  
 b. Consumption externality  
 c. Pollution externality  
 d. Pollution externality
- xv. All these are examples of direct taxes except  
 a) Inheritance tax b) Company profit tax c) Value added tax  
 d) Personal income tax

### SECTION B

#### Fill in the Gaps (20 Marks)

- i. The basic principle guiding revenue allocation in Nigeria is needs  
 ii. A situation where the economic activity of an economic agent has a beneficial impact on the economic activity of another agent is called externalities  
 iii. Debt management strategies is called debt management  
 iv. The displacement effect hypothesis of government expenditure was propounded by James Callaghan  
 v. Shifting of a tax burden is possible when the tax fall on different economic agents and tax  
 vi. Inheritance tax, capital gain tax and company income tax are examples of indirect taxes  
 vii. The amount by which government revenue exceeds government spending is called government budget surplus  
 viii. The use of government spending and tax policies to influence aggregate demand and aggregate supply is called fiscal policy  
 ix. According to the federal government's budget constraint, the sources of funds to finance expenditures are taxes, borrowing, and grants  
 x. The various reasons why government intervene in the economy are to correct market failure, to provide public goods, and to stabilize the economy

### SECTION C: ATTEMPT ONLY ONE QUESTION

#### Question 1

- (a) Why do we pay tax  
 (b) Why do the government of your country make budget?

#### Question 2

- (a) Itemize six sources of government revenue in Nigeria  
 (b) Given the national equilibrium equation as

$$Y = \frac{a - bT_0 + I + G + X - M}{1 - b + bt + m}$$

Where:  $C = 180 + 0.76Y$ ,  $T = 600 - 0.41Y$ ,  $M = 550 + 0.2Y$ ,  $G = 1100$ ,  $I = 460$ ,  $X = 280$  and  $R = 230$  (All information in ₦, Billion)

Calculate the value of equilibrium National Income

*use the concept of multiplier to verify the value of*