

OLABISI ONABANJO UNIVERSITY, ACO-IWOYE
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF ECONOMICS
CENTRE FOR SANDWICH PROGRAMMES
2002/2003 HARMATTAN SEMESTER EXAMINATION

COURSE CODE & TITLE: ECO 307/BN 305: PUBLIC FINANCE
INSTRUCTION: ANSWER QUESTION 1 AND ANY OTHER 2
TIME ALLOWED: 2 HOURS

Reason for government intervention in the economy is to correct market failure, provide public goods, and redistribute income.

1. Why is it that in a supposedly private enterprise economy, a substantial part of the economy is subject to some form of government direction and control rather than left to the "invisible hand" of market sources?

OR

Briefly but clearly discuss the major fiscal functions of the government in an economy.

- 2a. Critically examine any two theories of expenditure growth you know.
b. What factors accounted for increased government expenditure in Nigeria since independence?

- 3a. Discuss the principles of a good tax system.

- b. Differentiate between

- i. Impact of a tax; and
ii. Incidence of a tax

- c. Discuss with appropriate and well-labelled graphs how the incidence of taxation will be shared between buyers and sellers when an ad-valorem tax is levied on goods in each of the cases listed below:

- i. when demand elasticity is zero
ii. when supply elasticity is zero
iii. when demand elasticity is unitary
iv. when demand is perfectly inelastic.

4. "Public debt has a profound effect on various dimensions of the economy. It is both a source of problems and a tool of economic management in the hands of the authorities". Discuss the validity of this statement in the light of the role of public debt in ensuring economic growth and as a means of regulating the economy.

5. An economy has the following figures in its National Income Accounting
a = 500; b = 0.65; T_0 = 80; t = 0.35; M_0 = 110;
m = 0.3; I = 200; G = 180; and X = 250
where:

$$\begin{aligned} C &= a + bY_d \\ Y_d &= Y - T + R \\ T &= T_0 + tY \\ M &= M_0 + mY \end{aligned}$$

Required:

- i. Determine the volume of the national income
ii. Determine the net export and the tax revenue
iii. Is the government budget balanced?
iv. If, the government desires to increase its expenditure by 50% and fund same by an increase in autonomous tax of the same amount, what change will the equilibrium national income experience ultimately?

$$Y = C + I + G + X - M$$