BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ECONOMICS

COURSE CODE EC218: PUBLIC FINANCE 1 (3)

DURATION: 3 HOURS   **TOTAL MARKS: 100**

INSTRUCTIONS TO CANDIDATES

1. Answer any four (4) questions
2. Each question carries 25 marks
3. Cell-phones are not allowed into the exam
4. **Materials allowed:** Calculator

Question 1

a) Explain any 4 possible reasons leading to changes in inter-sector resource allocation

(12 Marks)

b) Using the indifference curve approach, demonstrate how optimal and sub-optimal resource allocation exists?   **(13 Marks)**

Question 2

a) Explain any 3 roles of government in an economy.   **(12 Marks)**

b) Distinguish between club goods and pure public goods.   **(13 Marks)**

Question 3

Discuss the view that, the use of Pigouvian tax is best for internalising negative externalities.   **(25 Marks)**

Question 4

a) A project requires an initial investment of $225,000 and is expected to generate the following net cash inflows:

Year 1: $95,000
Year 2: $80,000
Year 3: $60,000
Year 4: $55,000
Required: Compute net present value of the project if the minimum desired rate of return is 12%. **(15 Marks)**

b). Explain the steps that are involved in conducting Cost Benefit Analysis (CBA).

(10 Marks)

Question 5

a) Explain any three (3) conditions necessary for pareto optimality to hold.

(12 Marks)

b) Use the Coase theorem to demonstrate how externalities are internalised

(13 Marks)

Question 6

Explain the following terms as used in public finance

i.	Non-excludability	(5 Marks)
ii.	Free-rider problem	(5 Marks)
iii.	Merit good	(5 Marks)
iv.	Quasi-public goods	(5 Marks)
v.	Pure private goods	(5 Marks)

END OF PAPER