

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ECONOMICS

JUN 2024

COURSE CODE EC218: PUBLIC FINANCE 1

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
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Question 1

Examine the relevance of the following debt redemption methods to Zimbabwe:

- | | |
|------------------------|-----------|
| i. Refunding | [5 marks] |
| ii. Conversion | [5 marks] |
| iii. Surplus budgets | [5 marks] |
| iv. Sinking fund | [5 marks] |
| v. Additional Taxation | [5 marks] |

Question 2

- a) Use the Coase theorem to demonstrate how externalities are internalised. [13 Marks]
- b) Explain any three principles/criteria of an effective tax system. [9 marks]

Question 3

Using examples, explain the following terms:

- | | |
|----------------------|-----------|
| i. Pure public goods | [5 Marks] |
| ii. Club goods. | [5 Marks] |
| iii. Merit goods | [5 Marks] |
| iv. Voting paradox | [5 Marks] |
| v. Adverse selection | [5 Marks] |

Question 4

a) Explain any 4 roles of government in any economy.

[12 Marks]

b) Drax International is considering buying a machine costing \$100,000. There are two options, Machine A and Machine B, that will generate revenue for the next three years as given below:

Year	CF*A	CF*B
0	(100000)	(100000)
1	50 000	30 000
2	50 000	40 000
3	20 000	60 000

Calculate the payback periods and advise the Drax management on the best project to undertake.

[13 Marks]

Question 5

a) Distinguish between the following terms as used in public finance:

- i. Private goods and public goods
- ii. Non-rivalrous and non-excludable
- iii. Positive externalities and Negative externalities

[4 marks]

[4 marks]

[4 marks]

b) With the aid of a diagram, demonstrate how optimal and sub-optimal resource allocation exists?

[13 Marks]

Question 6

a) The government of Zimbabwe is proposing to, either, build a state-of-the-art international stadium in Bindura or expanding the Harare-Bindura-Mukumbura Highway. The Cabinet is indecisive on which project to undertake and has requested advice from students undertaking Public Finance course at BUSE. Using the Cost Benefit Analysis (CBA) Concept, demonstrate how the Cabinet would carry out CBA and consider the best project.

[17 Marks]

b) Advise the Cabinet on any 4 disadvantages of using CBA method.

[8 Marks]

END OF PAPER