

BINDURA UNIVERSITY OF SCIENCE EDUCATION
FACULTY OF COMMERCE
DEPARTMENT OF ECONOMICS
BACHELOR OF SCIENCE HONOURS DEGREE IN ECONOMICS
PUBLIC FINANCE 1: EC218 (3)
DURATION: 3 HOURS

MAR 2024

INSTRUCTIONS TO CANDIDATES

1. Answer any four (4) questions
2. Each question carries 25 marks
3. No cellphones allowed in the exam room
4. **Materials allowed:** Calculator

Question 1

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) |

Question 2

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

Question 3

a) Explain any 2 advantages and 2 disadvantages of the following techniques for investment appraisal:

- | | |
|------------------------------------|------------|
| i. Cost Benefits Analysis (CBA) | |
| ii. Profitability Index (PI) | |
| iii. Cost Effective Analysis (CEA) | (12 Marks) |

b) BUSE is deciding to invest in a project that would assist the country in controlling further spreading of COVID-19. The three potential projects have the following costs and expected outcomes:

	Sanitizer Production	Mask Production	Face Shield Production
Cost	50 000	40 000	90 000
Return			
Year 1	10 000	10 000	20 000
Year 2	10 000	10 000	20 000
Year 3	15 000	10 000	30 000
Year 4	15 000	15 000	30 000
Year 5	20 000	15 000	30 000
Total	70 000	60 000	130 000

Using the ARR appraisal method, advise the University on the project to take. (13 Marks)

Question 4

- Explain any four (4) principles of good budgeting. (12 Marks)
- Use the Coase theorem to demonstrate how externalities are internalised. (13 Marks)

Question 5

- Explain any 4 possible reasons leading to changes in inter-sector resource allocation. (12 Marks)
- Using the indifference curve approach, demonstrate how optimal and sub-optimal resource allocation exists? (13 Marks)

Question 6

- Explain any three (3) properties of majority voting. (9 Marks)
- With the aid of diagrams, illustrate how Pigouvian tax and subsidies could be used to internalise externalities. (16 Marks)

END OF PAPER