



ZCAS University

SEC 6211 PUBLIC FINANCE

MID SEMESTER TESTS

17th October 2023

TIME 16:30-19:30IIRS

TIME ALLOWED: READING AND WRITING – THREE HOURS

INSTRUCTIONS:

1. Section A: this question is **compulsory** and must be attempted.
2. Sections B: Answer **TWO (2)** questions from this section.
3. This examination paper carries a total of **100 marks**.
4. Candidates must **not turn this page** until the invigilator tells them to do so.

SECTION A-COMPULSORY QUESTION (50 marks)

QUESTION ONE

Market failure makes it difficult to achieve economic efficiency by distorting price mechanisms and normal distribution of goods and services, leading to welfare loss. Although market failure is bound to happen in any economy regardless of socioeconomic development, market failures are common in developing countries due to a lack of well-functioning market structures. Conventionally, governments have the responsibility of ensuring that markets are functioning perfectly through their allocative role to correct spillover effects that may emanate from market failures. However, the question is based on whether government policy is reducing or worsening economic inefficiencies. A dysfunctional market system is a deterrent to achieving high employment and sustainable economic growth. Sources of market failure include externalities, information asymmetry, public goods, and imperfect competition, among others. Essentially, optimal government policy implies efficiently correcting market failures and maximising socioeconomic welfare.

Source: Understanding Market Failure in the Developing Country Context

[https://www.econstor.eu/bitstream/10419/198043/3/Market%2BFailure%2BChapter New Jobs2.pdf](https://www.econstor.eu/bitstream/10419/198043/3/Market%2BFailure%2BChapter%2BNew%2BJobs2.pdf)

- (a). Define a market and briefly describe, with examples, the differences between perfect competition and perfect imperfection market structures. **[10marks]**
- (b). Discuss the causes of market failure and recommend the measures that policymakers should take to correct market failures. **[30 marks]**
- (c). Government failures exist, although they are not as common as market failures. Define government failure in the context of public finance and give examples of policies that cause government failure **[10 marks]**

[Total 50marks]

SECTION B

Section B has 3 questions. Each question carries 25 marks. Answer any 2 questions

QUESTION TWO

Among public finance practitioners and scholars, heated debates are common that border on the role of the government in the economy. The Libertarians advocate for a relatively small government. Libertarians seem to align themselves with capitalist or market-led economic systems. In contrast, the social democrats assert that sustained larger governments are needed for the improved welfare of the citizens. Social democrats contend that the role of government in the economy should go beyond providing justice and protecting individual liberty. It appears that socio-democrats are inclined more to the centrally planned or command economic systems. In practice, there is no economic system that is purely capitalist or purely centrally planned. There is always a trade-off between these two economic systems.

Critically evaluate the merits and demerits of centrally planned and free market economic systems. Which economic system would you recommend for Zambia? [25 marks]

QUESTION THREE

Write brief notes on each of the following:

- | | |
|--|-----------|
| (a). Fiscal policy and Monetary Policy | [5marks] |
| (b). Consumer surplus and Producer surplus | [5marks] |
| (c). Organic and Mechanistic views of government | [5marks] |
| (d). Public Goods and Private goods | [5Marks] |
| (e). Robert Coase's theory | [5marks] |

[Total 25marks]

QUESTION FOUR

Aggregate Demand (AD) and Aggregate Supply (AS) are two sides of economic activities that have a bearing on personal or disposable incomes, household welfare, employment, and savings

and investment decisions in the country. The government can influence economic activity with aggregate demand-side and supply-side policies or simply fiscal policies.

- (a). Define aggregate demand and aggregate supply [4 marks].
 - (b). Analyze how the government's expansionary demand-side policies impact aggregate demand, disposable incomes and household welfare [10marks]
 - (c). Evaluate the impact of government decisions to increase tax rates and interest rates on Investment, personal incomes, aggregate supply and employment level [11marks]
- [Total 25marks]

END OF EXAMINATION