



UNIVERSITY
OF
JOHANNESBURG

DEPARTMENT OF ECONOMICS AND ECONOMETRICS

AUCKLAND PARK KINGSWAY CAMPUS

PUBLIC SECTOR ECONOMICS

ECO3DB3/EKN3D01

Examination: 12 November 2015

LECTURERS: DR J DIKGANG & MR J MAHABIR

MODERATOR: PROF. C.V.R. WAIT

Duration: 3 HOURS

TOTAL MARKS: 100

Instructions:

1. Number of pages: **3**
 2. The paper consists of **eight (8)** questions.
 3. Each question carries 20 marks.
 4. Answer **FIVE** questions **ONLY**
 5. Write **neatly** and **legibly** (**We strongly discourage SMS style of writing**)
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Question 1**[20]**

With the aid of a fully labeled graph, explain the likely effects of an increase in individual income tax on the supply of labour.

Question 2**[20]**

Personal consumption is a better tax base than income. Discuss.

Question 3**[20]**

With the aid *a fully labeled graph*, explain how a government subsidy results in a deadweight loss to society. Under what conditions would a subsidy be welfare enhancing? Illustrate this condition in a graph and provide an example of such a case.

Question 4**[20]**

4.1 Explain the role of government in the economy as per the New Growth Theory.

(10)

4.2 Explain why government would likely budget for a public infrastructure project (consider a higher net present value of a project) when considering the input costs and benefits of a particular project.

(10)

Question 5**[20]**

5.1 Explain why altruistic behaviour could provide a Pareto-based justification for a policy of income redistribution.

(10)

5.2 Discuss the efficiency implications of an inter-sectoral (or interpersonal) policy of income redistribution.

(10)

Question 6**[20]**

Illustrate (i.e. *a fully labeled graph*) the effect on general equilibrium of introducing a monopoly into the two-sector model. What are the efficiency implications?

Question 7**[20]**

Due to lags, fiscal policy is irrelevant. Do you agree with this statement? Substantiate your answer.

Question 8**[20]**

8.1 Explain the assumptions and main arguments of the Teibout model. (10)

8.2 Define and explain local economic development and why is it considered important? (10)

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