



UNIVERSITY  
OF  
JOHANNESBURG

**UNIVERSITY OF JOHANNESBURG**

**DEPARTMENT OF ECONOMICS AND ECONOMETRICS**

***ECONOMICS 3D: PUBLIC SECTOR ECONOMICS***

***ECO3DB3/EKN3D01***

**Examination: November 2016**

**LECTURER: DR J. DIKGANG & MR J. MAHABIR**

**MODERATOR: DR M NCUBE**

**Duration: 3 HOURS**

**TOTAL MARKS: 100**

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Instructions:

1. Number of pages: **2**
  2. The paper consists of **four (4)** questions.
  3. Each question carries 25 marks.
  4. Answer **ALL** questions
  5. Write **neatly** and **legibly** (**We strongly discourage SMS style of writing**)
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**Question 1**

**[25 marks]**

(a) Under what conditions would a subsidy be welfare-enhancing? Do you think this is the case for social old-age pensions in South Africa? Would it equally be the case for grants to single mothers? (15 marks)

(b) Why is it so difficult for the private sector to provide insurance against unemployment? (10 marks)

**Question 2**

**[25 marks]**

(a) Distinguish between pecuniary and technological externalities and show how they might feature in the evaluation of public projects. (9 marks)

(b) Illustrate with the aid of a diagram what you consider to be the optimal value of a public project. (10 marks)

(c) How would you justify the use of a social discount rate that differs from the prevailing market rate of interest? (6 marks)

**Question 3**

**[25 marks]**

(a) Explain why the government should levy indirect taxes (10 marks)

(b) Who really pays the property tax on improvements? Explain by using partial and general equilibrium analyses. (10 marks)

**Question 4**

**[25 marks]**

(a) Explain the assumptions and main arguments of the Tiebout model. (10 marks)

(b) A fiscally decentralised system is always more efficient and more equitable than a fiscally centralised system." Discuss. (15 marks)

**END OF PAPER**