

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF FINANCE

BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE
PART II – 2ND SEMESTER FINAL EXAMINATION – JUNE 2007

PUBLIC FINANCE II: CFI 2204

TIME ALLOCATED: 3 HOURS 10 MINUTES

INSTRUCTIONS

1. The paper is 3 hours 10 minutes, of which 10 minutes is reading time.
2. This paper contains six [6] Questions.
3. Attempt question one, which is compulsory, plus any four others.
4. All questions carry equal marks [20 marks].
5. Write legibly.

QUESTION ONE [COMPULSORY QUESTION] [20 marks]

- (a) The table below provides a summary of statistics extracted from the Kingdom of Utopia.

	1990	1995	2000	2005
Total expenditures:				
• Current dollars (billions)	10.7	70.3	332.9	1,550.0
• 2001 dollars (billions)	75.2	298.4	825.8	1,476.0
GNP, current dollars (billion)	103	288	1,015.5	4,500
Price index (2001 = 100)	13'0	21.4	37.7	105.5
Population (millions)	122	152	205	258

Compute the following statistics for the period 1990 to 2005 and summarise the results using a table:

- (i) Expenditure-to-GNP ratios [4 marks]
 - (ii) Expenditure elasticities [3 marks]
 - (iii) The economy's marginal propensity to spend in the public sector. [3 marks]
- (b) Confirm whether the results in (a) are consistent with Wagner's "Law of Rising Public Expenditures". [2 marks]
- (c) Examine the ways in which the theories of bureaucracy have been useful in explaining the dynamics of public expenditure. [4 marks]
- (d) Outline four ways that can be used to classify public expenditure. [4 marks]

QUESTION TWO [20 marks]

- (a) Provide justifications for the following methods of financing public activities:
- (i) Deficit financing. [4 marks]
 - (ii) Grants-in-aid. [4 marks]
- (b) Discuss whether the use of debt financing causes "crowding out". [4 marks]
- (c) Examine the forces that have given rise to the need to privatize public undertakings. [8 marks]

ANSWER EITHER [A] OR [B]

QUESTION THREE [A] [20 marks]

“It makes no difference whether a tax is imposed on the supplier of a factor or commodity rather than on the consumer. Who bears the burden of the tax depends instead on demand and supply elasticities, and whether the market is competitive or non competitive.” Demonstrate how this is so. [20 marks]

OR

QUESTION THREE [B] [20 marks]

One practical way of distinguishing among types of taxes is to consider their point of impact in the circular flow of income and expenditures in the economy. How can this be achieved? [20 marks]

QUESTION FOUR [20 marks]

- (a) Distinguish between monetary policy and fiscal policy, and illustrate how the two policies overlap. [10 marks]
- (b) “The existence of time lags limit the effectiveness of stabilization policy and, in some circumstances, can result in greater instability.” Discuss this statement in relation to discretionary interventions in fine-tuning the economy. [10 marks]

QUESTION FIVE [20 marks]

- (a) Given the following data construct index numbers by applying
 - (i) Laspeyres method.
 - (ii) Fisher’s ideal method.

Commodity	2005		2006	
	Price (\$)	Quantity	Price (\$)	Quantity
A	15 000	8	35 000	6
B	30 000	10	65 000	5
C	25 000	14	40 000	10
D	15 000	18	30 000	12

[6 marks]

- (b) If real output rises by 3% and inflation is 5%, estimate the rate of increase in nominal output. [2 marks]
- (c) What have been the main drivers of inflation in Zimbabwe? [12 marks]

QUESTION SIX [20 marks]

- (a) Examine the quasi-fiscal activities [QFA] of the Reserve Bank of Zimbabwe and outline how they impact negatively on the economy. [15 marks]
- (b) In what way does the real-business-cycle thrust differ from the mainstream economists’ in terms of their views on equilibrium real GNP. [5 marks]