



AFRICAN ECONOMIC RESEARCH CONSORTIUM
Collaborative Masters Programme in Economics for Anglophone Africa
(Except Nigeria)
JOINT FACILITY FOR ELECTIVES (JFE) 2013
JUNE - SEPTEMBER

PUBLIC SECTOR ECONOMICS II

Second Semester: Final Examination

Duration: 3 Hours

Date: Monday, September 16, 2013

INSTRUCTIONS:

1. Answer **ANY FOUR QUESTIONS** in this examination.
 2. Each question carries twenty five (25) marks.
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Question 1

- (a) To what extent is income tax a good tax? *[12 marks]*
- (b) With the aid of appropriate assumptions and illustrations, explain how government can achieve optimum linear income taxation. *[13 marks]*

Question 2

- (a) Harberger (1974) pioneered the application of general equilibrium models to tax incidence. Without stating the assumptions of the model, discuss the Harberger model by showing that there are basically two effects of introducing a corporate tax (Output and Substitution effects) *[15 marks]*
- (b) Analyze the impact of imposing taxes on the owners of super markets within the general equilibrium framework of tax incidence. *[10 marks]*

Question 3

- (a) Under what circumstances will the imposition of taxes increase work effort? *[8 marks]*
- (b) With the aid of relevant diagrams explain carefully which tax regime, proportional tax or lump sum tax, has more effect on labour supply. *[17 marks]*



Question 4

- (a) Explain three optimality rules of commodity taxation. How relevant are these rules to sub-Saharan African countries? Explain any resemblance among any of the rules. *[16 marks]*
- (b) What are the alternatives to taxation available to the government of your country as a source mobilizing revenue for development? *[9 marks]*

Question 5

- (a) As a student of Public Sector Economics, discuss the political and economic implications of government borrowing. *[10 marks]*
- (b) What constitutes the debt burden? Carefully analyze the efficiency and equity implications of a debt burden for your country. *[15 marks]*

Question 6

- (a) According to Musgrave (1969) there is a relationship between tax structure and economic development. Identify and explain the various periods in the development process and the relative importance of tax in each period. *[5 marks]*
- (b) With reference to the article by Asaminew, E. (2010), titled “The Underground Economy and Tax Evasion in Ethiopia: Implications for Tax Policy”, briefly explain two methods for estimating the underground economy and hence tax evasion. *[8 marks]*
- (c) The informal sector is very large in the economies of most African countries. As a tax policy expert/consultant, what measures would you propose for taxing the informal sector? *[12 marks]*