



AFRICAN ECONOMIC RESEARCH CONSORTIUM

Collaborative MA Programme in Economics for Anglophone Africa (Except Nigeria)

JOINT FACILITY FOR ELECTIVES (JFE)

JUNE – OCTOBER 2008

PUBLIC SECTOR ECONOMICS I

First Semester: Final Examination

Duration: 3 Hours

Date: Wednesday, August 13, 2008

INSTRUCTIONS:

Answer ANY THREE (3) Questions. All Questions Carry Equal Marks.

Question 1

- (a) Utilizing examples of “market for lemons” and “credit rationing” given by award winners, Akerlof and Stiglitz respectively, explain how information asymmetries can cause market failure. Explain how this problem can be solved or minimized. **(10 marks)**
- (b) Consider an economy with two goods X and Y, where X is a private good and Y a public good. Suppose there are two individuals A and B, with utility function $U_i = U(X_i, Y_i)$; where $i = A, B$. Given a production function $F(X, Y) = 0$, derive and discuss efficiency conditions for the supply of the public good *vis a vis* those of the private good **(10 marks)**

Question 2

- (a) Briefly give an overview of the various dimensions of the relationship between the public sector and the rest of the economy. **(10 marks)**
- (b) The economy produces two commodities X and Y. Producers use labour in the production of both commodities but X also uses capital which has externalities on Y. Algebraically show the externalities that are likely to be caused on Y and suggest how they can be reduced. **(10 marks)**



Question 3

In August 1997 The Kyoto Protocol was drawn up. The Kyoto Protocol is supposed to reduce the emissions of the six greenhouse gases. Once The Kyoto Protocol is signed by a country, it legally binds the nation to reduce emissions of these greenhouse gases by an average of 5.2% below their 1990 levels over the first five year period, from 2008 to 2012. As of January 28th 2003 almost all of the industrialized countries had signed The Kyoto Protocol

Developing countries have been eager to see the Kyoto Protocol put into effect, especially since all of the required emission reductions would occur in the developed countries. Discuss the effects the Protocol may have on developing countries' economies.
(20 marks)

Question 4

- (a) Some economists believe that even with good intentions governments seldom get their policy application correct. They can tax, control and regulate but the eventual outcome will be a deepening of the market failure or even worse a new failure may arise. If this belief is true explain factors that can make government policies deepen the market failure or create a new one and suggest ways this problem can be solved.
(10 marks)
- (b) Compare the different approaches to project evaluation followed by the private and public sectors.
(10 marks)

Question 5

- (a) Do you agree with the contention that majority rule does not necessarily produce outcomes representative of the majority view? Discuss with reference to the impossibility theorem and the phenomenon of vote trading.
(10 marks)
- (b) Discuss “Wagner’s law” critically and indicate its relevance to African countries
(10 marks)