CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA
CSUC SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE

END OF FIRST SEMESTER EXAMINATIONS – 2018/19 ACADEMIC YEAR

LEVEL 400
CSBF 424: PUBLIC FINANCE II

MAY, 2019   60 MARKS   TIME ALLOWED: 2 HOURS, 30 mins.

GENERAL INSTRUCTIONS TO CANDIDATES:
- Answer **three** questions in all:
- Answer question one from Section A and B and choose **one** questions from Section C.
- Write your index number on top of the question paper and every page of the answer booklet used.

Examiner: Abigail Asamoah

SECTION A (Definition and explanation of concepts) (20 Marks)

1.

    a. Explain which of the following you consider a public good or a private good

    i.   Street light (2 marks)

    ii.   Prison (2 marks)

    iii.   Medical School Education (2 marks)

    iv.   Public Television Programs (2 marks)

    v.   Road Network with toll booths (2 marks)

    b. Briefly explain the following:

    vi.   Public Choice (1 mark)

    vii.   Political Equilibrium (1 mark)

    viii. Political Institution (1 mark)

    ix.   Rational Ignorance (1 mark)

    x.   Most Preferred Political Outcome (1 mark)

    xi.   Median voter (1 mark)

    xii.   Unanimous Consent (1 mark)

    xiii. Political Externalities (1 mark)

    xiv. Political Transactions Cost (1 mark)

    xv.   Lindahl Equilibrium (1 mark)

    c. Osei and Oware live in the jungle and have trained Gyata both to patrol the perimeter of their clearing and to harvest tropical fruits. Gyata can collect 3 pounds of fruit an hour and currently spends 6 hours patrolling, 8 hours picking, and 10 hours sleeping.

    i.   What are the public goods in this example and why? (3 marks)

    ii.   What are the private goods in this example and why? (2 marks)

    d. What is the difference between a Constitution and a Social Contract? (5 marks)

SECTION B (20 marks)

a) Differentiate between Real Externalities and Pecuniary Externalities? (3 marks)

b) Explain the pecuniary effect of an increase in the demand for a good on the existing consumer's real income. (2 marks)

c) With the aid of a diagram, explain how a positive externality can be internalized using a Corrective Subsidy of Gh30.00 (15 marks)

SECTION C (Answer Any One of the 2 questions for 20 marks)

Q1. The data below represents the Marginal Benefits of a number of Boreholes per consumer in Ghana Cedis.

Number of Boreholes

CONSUMERS MARGINAL BENEFITS	1	2	3	4
MB of Akua	300	250	200	150
MB of Ama	250	200	150	100
MB of Adwoa	200	150	100	50
ΣMBi	750	600	450	300

(a) Derive the individual demands and the market demand curves for Boreholes assuming that it is a pure public good. (10 marks)

(b) If the MC of producing Boreholes is Gh450, no matter how many are produced, then what is the efficient number of Boreholes to have each year? Explain your answer. (4 marks)

(c) If a Lindahl scheme is used to finance the Boreholes, what prices would be charged to Akua, Ama and Adwoa at output 3? (6 marks)

Q2.

a. What are taxes? (1 mark)

b. How does taxation reallocate income from private to public use? (2 marks)

c. The incidence of an indirect tax depends on the elasticity of demand for the good in question. With the aid of diagrams, explain the tax burden on both the consumer and the producer:

    i.   If a good has a relatively elastic demand (3 marks)

    ii.   If a good has a perfectly elastic demand (3 marks)

d.

    i.   Explain how a budget surplus can be used to solve the problem of inflation   (4 marks)

    ii.   Explain how a budget deficit can be used to solve the problem of unemployment. (4 marks)

    iii.   A tax base is the item or activity on which a tax is levied. State the three (3) tax bases and explain how they are related. (3 marks)

Abigail Asamoah