University of Fort Hare
Together in Excellence

UNIVERSITY OF FORT HARE

Public Economics
ECO 312/312E

MAIN EXAM

May/June

2023

....

Time:	**3 hours**
Subject:	**ECO 312/312E**
Marks:	**100**

This paper consists of 3 pages including the cover page

Internal Examiners
Dr P Ngonisa
Mr E Mutambirwa
Ms A Jiza

External Examiners

Dr R Garidzirai

INSTRUCTIONS

Answer ANY FOUR questions
The ceteris paribus condition applies to all questions.
Read and fully understand a question before answering.
Where possible, provide examples
It is in your best interest to write neatly and legibly.

Question 1 [25]

(a). Discuss the advantages and disadvantages of numerical fiscal rules. Is fiscal policy in South Africa driven by rules or discretion? Substantiate your answer. (15)

(b). Distinguish between taxes and other sources of government revenue. In your answer, you should differentiate between the six main categories of tax in South Africa as well as elaborate on other sources of government revenue. (10)

Question 2 [25]

a) 'A tax on cigarettes is inefficient since it is non-neutral.' Do you agree? Explain your answer by using indifference curves. (15)
b) "A fiscally decentralised system is always more efficient and more equitable than a fiscally centralised system." Discuss. (10)

Question 3 [25]

a) Critically evaluate the introduction of a worldwide basis of taxation in South Africa. In your discussion, differentiate between the residence and source principle. (10)
b) Outline the net present value (NPV) method of project evaluation and briefly compare it to the internal rate of return. Discuss the benefits/limitations associated with each method. (15)

Question 4 [25]

(a). Discuss the Rawlsian theory of justice and briefly comment on its relevance to the political economy of South Africa. (15)

(b). Use a diagram to explain the distinction between automatic fiscal stabilizers and active fiscal policies. (10)

Question 5 [25]

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. (15)

b) How would you justify the use of a social discount rate that differs from the prevailing market rate of interest?(10)

{ END}