



**REFORMED CHURCH UNIVERSITY**

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**FACULTY OF COMMERCE**

**BACHELOR OF COMMERCE HONOURS DEGREE IN  
PUBLIC ADMINISTRATION**

**PUBLIC SECTOR ECONOMICS**

**HPAD 202**

**PART 2 SEMESTER 1 EXAMINATION**

**TOTAL MARKS [100]**

**DATE: OCTOBER 2024**

**Time: 3 Hours**

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**INSTRUCTIONS**

1. This paper has *six (6)* questions
2. Answer question *one (1)* and *any* other *three (3)*
3. Each question carries *25 marks*
4. Start each question on a new page

1. A new project will cost \$40000 and is expected to last 4 years. At the end of 4 years it is expected to have scrap value of \$5000.

The project is expected to generate operating cash flows each year as follows

YEAR 1	YEAR 2	YEAR 3	YEAR 4
10000	\$15000	\$20000	\$5000

Assume that all operating cash flows occur at the end of years if interest is 10% per annum

**Calculate:**

- a) NPV of the project and explain whether or not the investment should be undertaken. (20 marks)
- b) Explain what is meant by time value money. (5 marks)
2. a) Explain the difference between Indirect taxes (10 marks)
- b) Discuss the impact of indirect taxes on mitigating negative externalities (15 Marks)
3. Using relevant examples, examine any 5 roles of government in the economy of the country of your choice. (25 marks)
4. a) Explain what is meant by market failure (10 marks)
- b) Discuss any 3 sources of Market Failure (15 marks)
5. i) Explain the meaning of the term 'externalities' in public sector economics (12 marks)
- ii) Assess any 5 possible remedies for externalities. (13 marks)

6. Explain the following terms as used in public sector economics:

- a) Positive externality (5 marks)
- b) Common pool resource (5 marks)
- c) Public goods (5 marks)
- d) Free-riding (5 marks)
- e) Information asymmetry (5 marks)

**END OF PAPER**