

1. Lake Qoka, estimated to be 110 km north east of capital city Addis Ababa, is seriously polluted by pollution emitted by tannery factory. This has rendered the water source as unusable for many people that depend on it for their daily living i.e. domestic water consumption. Source of pollution was identified as industrial development without industrial effluent waste treatment is one among the identified sources. As a matter of chance the central and regional government together calls Ambo university Woliso campus 3rd year Economics students to undergo some sort of economic researches on the stated problem. **(4 pts)**
 - i. As a brilliant economist, how can you approach the problem?
 - ii. Who should be responsible for the management of the lake? **Justify**
 - iii. What would you recommend the central and regional governments as an input feeder?
 - iv. What policy instruments are most appropriate to your own best for the proper management of the lake?
2. What does displacement effect mean? When does it happen? Support your justification with the aid of graph and state the condition that the time pattern analysis of public expenditure of Wiseman and Peacock concerned with. **(3pts)**
3. There are four peasant associations bordering Woliso town, having their own way of life that distinguishes one peasant association from other peasant associations of the area and have lived together for a long period of time peacefully sharing the resource of the area. Among these Peasant associations; Cari, Talila and Gobarra peasant associations are characterized by rapid population growth, which in turn increases the demand and competition of cereal crop production for food. In order to be able to feed their population and improve their living standard, each peasant association managers need to increase their agricultural production. This can be accomplished either by increasing the size of agricultural sector or expanding the use of modern technologies to increase productivity, or both. These peasant association managers lastly decide to expand the use of modern technology particularly modern irrigation technologies, since increasing size of the agricultural sector is difficult to them. This is consistent with the government's massive push to promote and deliver agricultural technology packages to increase efficiency of farmers through efficient utilization of the

existing scarce resource (water and land). Accordingly the regional government in collaboration with zone and district administrators established surface water irrigation scheme project for the stated peasant associations on Ejersa River which borders Cari and Talila PAs on the south east and Goborra PA on the North West i.e. Cari and Talila are found on the upper stream of Ejersa River PAs and Goborra is the lower stream PA. The technologies adopted by these PAs are mainly those technologies used for the development of small scale irrigation which later reduces the available volume of water for the lower stream PA. This issue leads to conflict between the upper and the lower stream PAs. To reconcile them, the zonal, district and PA governors of the woreda requests Economics students of Ambo university Woliso campus to identify the cause of conflict and provide optimum solutions for the case occurred.**(3pts)**

- i. How can you relate the case to your lesson? What was cause of the conflict?
- ii. How can you relate the stated issue with pareto-efficiency and fair distribution?
- iii. As an economist, what would you recommend the governors and the managers of PA for the achievement of long lasting and harmonized economic and social relations between PAs?

Self Check Exercise

Part I: Say TRUE if the statement is correct or FALSE if the statement is wrong

1. Balanced budget is recommended when depression and unemployment occurs in the economy due to deficiency of effective demand.
2. Effect of public debt on liquidity is favorable if the governments bonds are liquid assets which can be sold in the market.
3. In external debt, the direct real burden refers to the loss of economic welfare which these money transfers involve.
4. If cannon certainty is failed, fiscal discipline cannot be maintained and there will be unnecessary wastage and overspending.
5. Like private good, the optimal allocation of public goods is determined when marginal cost is equal to marginal utility each consumer.
6. The voluntary exchange model of public expenditure theory is concerned itself with the problem of just distribution of income.
7. If the bondholder and taxpayers is the same people, public debt will not have effect on redistribution of income.
8. Pigou's theory of maximum aggregate benefit determines the size of the budget by bringing both taxation and expenditure sides together.
9. If people and individual firms lend to the government out of their idle savings, their consumption is reduced.
10. According to Samuelson benefit theory of Expenditure, even if all preferences are revealed, there is no single best solution analogous to the pareto optimum in the satisfaction of purely private wants

Part II: Multiple Choices

1. _____ is the most primary stage of expenditure control, which specifies the functions, and objectives of public expenditure.
A. Audit control
B. Parliamentary control
C. Legislative control
D. Budgetary control
2. The ideology of classical and Modern theory of government budget is similar when
A. There is excess purchasing power and an economy suffers from inflation

- B. There is depression and unemployment occurs in the economy
- C. There is neither inflation nor unemployment
- D. All
- E. None

3. Identify the wrongly matched one

- A. Canon of sanction-----No diversion of public expenditure
- B. Canon of Elasticity-----Public expenditure should not be too rigid
- C. Canon of economy----No proper utilization of resources
- D. Canon of certainty---- Objectives of public expenditure should be clear

4. Which one of the following **is/are wrong** about government budget?

- A. It is a reflection of not only taxation and public expenditure
- B. It should not be over-ambitious
- C. Budget preparation undergoes through different stages of action.
- D. The purpose of government budget varies

5. The following are the reasons traditional view suggest as internal public debt imposes a real burden on the community except

- A. Public debt reduce the performance of private firms
- B. Public debt is a more costly method of financing public expenditure
- C. Public debt transfer of funds from one pocket to another
- D. Huge public debt may undermine the creditworthiness of the government.
- E. None

6. One of the following **is not** undertaken for practice of Incremental budgeting

- A. Reviewing each and every items of budget proposal is necessary
- B. Only new additions or reductions from the past outlay are examined.
- C. Substantial changes are not made in the budget
- D. Old budget programme remain unexamined
- E. None

7. The burden of a foreign debt is different from that of domestic debt because in case of foreign debt,

- A. Interest payments and the repayment of loans are available to local nationals
- B. Additional transfer problem exists while debt is paid off
- C. The government should have to secure foreign currencies
- D. All except A
- E. None

8. Which one of the following measurements of debt burden comparing the

cost side in relation to benefit side public debt?

- A. Aggregate public debt to national income ratio
- B. Debt service charge to total public expenditure ratio
- C. Public debt to national income ratio
- D. Public expenditure to national income ratio

9. As to the modern economists, _____policy is needed when an economy faces an investment, which is more than saving.

- A. Deficit budget
- B. Balanced budget
- C. Surplus budget
- D. None

10. One of the following public expenditure theory contradicts with the canon of sanction.

- A. Lindahl's Benefit Model of Voluntary Exchange
- B. Principle of Maximum Aggregate Benefit
- C. Principle of Maximum Social Advantage
- D. Samuelson's Benefit theory of Public Expenditure.

Part III: Matching

A

1. Repudiation of debt
2. *Sinking Fund*.
3. Unfunded debt.
4. Incidence of tax
5. Bonds
6. *Conversion of Loans*

B

- A. Refunding debt (repayment of a debt creating a new loan)
- B. Gradual accumulation of a fund
- C. Long-term debt instrument
- D. Short period debt
- E. Final burden of tax
- F. Refusing to pay off debt
- G. Initial impact of tax

Part IV: Fill in the blank space

1. _____ is a type of budget which the government keep as contingencies for shortage of funds might faced in course of implementation of the budget programs due to some important additions of activity
2. _____ is the decision of government to mature every year a certain limited portion of the bonds to repay borrowing made previously.
3. When interest on foreign loans and repayment of debt amount to a considerable figure and when adequate export surplus has not been built up for various reasons a debtor country may be unable to honor its obligations. This is known to be as _____

Part V: Short answer questions

1. As fiscal policy instrument the government should make adjustment on its

expenditure to stabilize economic problems. What ways do you recommend for controlling inflationary problem?

2. Suppose you are employed as planning and program officer at Woliso woreda where one of your main activities is preparing and allocation of government budget for different sectors. Explain the major purpose of preparing government budget. _

3. As to the traditional view, list four justifications forwarded on the argument that public debt, as in the case of private debt, imposes a real burden on the community?