



MANICALAND STATE UNIVERSITY OF APPLIED SCIENCES

FACULTY OF AGRIBUSINESS AND COMMERCE

Department of Agricultural Economics and Development

APPLIED WELFARE ECONOMICS AND PUBLIC POLICY

CODE: AEDT 216

SESSIONAL EXAMINATIONS

FEBRUARY 2022

DURATION: 3 HOURS

EXAMINER: MR F. RUZHANI

INSTRUCTIONS

- 1. Answer any Four (4) questions.*
- 2. Start a new question on a fresh page*
- 3. Total marks 100*

Question 1

- a) *According to Smith, the best government policy for the growth of a nation is that policy which governs least.* Explain Smith's thinking. [5]
- b) With the aid of an Edgeworth box describe the concept of **pareto optimality** and **pareto improvement**. [7]
- c) Explain the drawbacks and criticisms of the first theorem of welfare economics. [5]
- d) With reference to examples explain what you understand by the **consumer's maximum Willingness to Pay** for something and explain how it sometimes leads to a consumer surplus. [4]
- e) *Net welfare benefits are the sum of consumer and producer surplus.* With the aid of a graph explain **social efficiency**. [4]

Question 2

- a) *Market failure, in economics, is a situation defined by an inefficient distribution of goods and services in a free market.* With the aid of examples explain how the following conditions lead to inefficiencies and hence market failure.
- i) Monopoly [5]
- ii) Asymmetric information [6]
- b) Describe the **two** fundamental characteristics of public goods and explain how these characteristics lead to the free rider problem and market failure. [10]
- c) With reference to an example explain what you understand by the term **tragedy of the commons** and suggest the most probable solution to this problem. [4]

Question 3

- a) With reference to an example and a graph explain
- i) the effects of a negative production externality. [10]
- ii) Coasian solution to the negative production externality mentioned in (i) above, [7]

- b) Explain four problems associated with the Coasian solution to externalities. [8]

Question 4

a) *In trying to improve the welfare of its citizens the government can impose price ceilings and price floors on various goods and services. Explain the effects of*

- i) Imposing a price ceiling on the price of bread. [7]
ii) Imposing a price floor on the price of maize. [7]

b) *In a bid to support and improve the welfare of domestic producers and hence promote employment the government can impose quotas or tariffs to reduce the volume of imports. Explain the effects of imposing an import tariff on cooking oil on price, quantity supplied, quantity demanded as well as the welfare of producers and consumers.* [8]

c) Explain the advantage of import tariffs over import quotas in regulating the volume of imports in a country? [3]

Question 5

a) With reference to an example and a graph explain the effects of a positive consumption externality. [10]

b) Explain how a government subsidy can be a solution to a positive production externality. [7]

c) A new mining project is set to displace villagers off their ancestral communal owned land. Villagers are resisting the displacement. Assume that the project has winners and losers as follows:

- The private and external benefits are estimated at 8 billion.
- The cost of buying mining equipment and labour for mineral extraction is 3 billion.

- Residents to be displaced off their land see a loss in personal welfare of 1.5 billion.

Use the **Kaldo-Hicks criteria** to explain fully the Scitovsky paradox and the scenarios available which may result in resolving the dilemma. **[8]**

END OF EXAMINATION