



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

AUGUST 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

With reference to relevant examples explain the following arguments by Adam Smith which were mostly directed to the Mercantilists.

- (i) The principal of human behaviour is self-interest. [7]
- (ii) The invisible hand of competition automatically transforms the self-interest of many into the common good. [10]
- (iii) The best government policy for the growth of a nation is that policy which governs least. [8]

Question 2

- a) With the aid of an Edgeworth box describe the concept of **pareto optimality** and **pareto improvement**. [10]
- b) *The key to measuring consumer benefits using welfare analysis is to identify consumers' maximum willingness to pay (WTP) for something.* With reference to examples and a graph describe how consumer benefits are quantified using the maximum willingness to pay principle. [9]
- c) With the aid of a graph explain the concept of social **efficiency**. [6]

Question 3

Many economists believe that the quantity of goods and services that an economy produces is more important than the ultimate distribution of the goods and services within society. With reference to examples to what extent do you agree with this statement? [25]

Question 4

- a) Describe the **two** fundamental characteristics of public goods and explain how these characteristics lead to the free rider problem and market failure. [10]
- b) *In trying to improve the welfare of its citizens the government can impose price ceilings on various goods and services.* Explain the effects of imposing a price ceiling on the price of cooking oil. [7]

- c) *In a bid to improve access to affordable basic commodities in the face of the recent substantial price increases in the shops, the government decided to open up imports of basic commodities by citizens, through the lowering of import tariffs. With the aid of a graph explain the effects of lowering the import tariff on cooking oil on price, quantity supplied, quantity demanded as well as the welfare of producers and consumers.* [8]

Question 5

- a) With reference to examples distinguish between positive and negative externalities. [8]
- b) With reference to an example and a graph explain the effects of a negative production externality. [10]
- c) With the aid of a graph describe how a Pigovian tax can be used to address the effects of a negative production externality mentioned in (b) above. [7]

END OF EXAMINATION