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1. Public expenditure grows in response to growth in general price level (inflation). Which means that if the population does not increase, or its growth remains constant, the public expenditures will still increase to keep pace with the rising costs of inflation.

Some of the reasons why public expenditure will continue to grow are:

- a.) income elasticity and increase in per capita income: a rising share of public expenditure in national income is associated with a rise in per capita income. Thus, an increase in per capita income over a period of time may cause a relative rise in public expenditure. This is because the demand for public goods tends to rise with the rise in per capita income.
- b.) Effects of war and need for defense: tremendous growth in public expenditure can be attributed to war and defense to threats of war in modern times.
- c.) Resource mobilization and ability to finance; when a government innovates more and more methods of taxation and resource mobilization, its ability to finance public expenditure increases and its size of public expenditure grows.
- d.) Inflation: with the rising prices the government has to keep increasing expenditure to carry out its functions and make sure the supply of goods are intact.

1b) why does the Government Borrow? – Essentially, the government borrows so that it can enable higher spending without having to increase taxes. The annual amount the government borrows is known as the budget deficit. The total amount the government has borrowed is known as the national debt or public sector debt.

2. As an instrument of economic development, Adam Smith was a strong champion of the policy of laissez-faire because he propounded the following:

Allowing economic freedom to every individual not hampered in any manner by State action.

He believed that “there is a set of rules of rights or justice, and perhaps even of morality in general, which are, or may be known by all men by the help either of ‘reason’ or of a moral sense.” He was thus a strong believer in ‘natural reason’ guiding human affairs and he regarded State interference not only superfluous but positively harmful to economic progress.

Guided by enlightened self-interest, each individual was capable of promoting his own well-being and while promoting his own interests he promotes the welfare of the whole society in the process. It is, therefore, according to Adam Smith, the production by individuals is led as if by the ‘invisible hand’, to promote social welfare. Thus, though individual capitalists produce goods to make profits for them but in doing so they promote social welfare though it was no part of their intention. As a

matter of policy, therefore, Adam Smith advocated the removal of all restrictions on trade, choice of occupation and the use of property by individuals.

2a. As the new economic adviser of Anambra state I would give the following advise:

Firstly, I would advise the Governor on how to generate revenue for the state through the royalties the state is entitled from revenue crude oil and through effective tax.

- We would impose effective tax on citizens on the state but we would sensitize the crowd on the effects of paying tax

- I would also set in place policies that would help improve savings and investment so that the state would be prepared for any eventualities or emergencies.

2b. a. Canon of equity– According to Adam Smith's canon, taxation imposed on an individual should be in accordance with his ability to pay.

b. Canon of certainty– A tax should not cause hardship to the tax payer. Therefore, this canon requires that the tax payer should be certain about the amount, time and revenue of payment of the tax.

C. Canon of convenience– This maxim seems to ensure that the time and method of payment of the tax become most convenient to the tax payer.

d. Canon of economy– This principle indicates that a good tax system will require the least possible expenditure on collection of taxes. If a large part of the tax revenues is spent in collecting it, it is undoubtedly an inefficient tax system.

In recent times, these cannons have only bepracticable in some parts of Nigeria which have good tax systems. An example of some of those states are Lagos state and FCT where revenue is remitted back to the federal Government regularly. But as for the other states there is much needed to be done to improve the tax system.