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**COURSE CODE: ECO 206**

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**ASSIGNMENT FOR ECO206 (PRINCIPLES OF FINANCE)**

1. Public expenditure will continue to grow. Explain

Firstly, what is ***public expenditure***? They are expenses incurred by the public authorities- central, state, and the local governments. Such expenditures are made for the maintenance of the governments as well as for the maintenance of the society as a whole. There was a misbelief in the academic circles in the 19th century that the public expenditure were wasteful. This conservative thinking died down later in the 20th century, especially after the ***second world*** ***war.*** Now we can point out the reasons for the enormous increase in public expenditure:

* Size of the country and the population: population growth attracts the increase in the expenses as all state functions are to be performed more extensively. The state will have the added responsibility of solving such problems as food, unemployment, housing, and sanitation. The state will therefore, spend more on family planning.
* Defense expenditure: The tremendous growth of public expenditure can be attributed to the threats of war. No great war has been conducted in the second half of the 20th century. But the threats of war have not vanished, rather it looms large. Thus, mere, soverenity, demands a larger allocation of financial sources for defence preparedness.
* Inflation: with the rising prices government as to keep on increasing public expenditure to carry out its function and to maintain the supply of public goods intact.
* The planning effect: in a less developed economy, the government adopts economic planning for the development of the country. In a planned economy, thus, when the public sector is expanding its role, public expenditure obviously shows an increasing trend.

1b) Why does the government borrow? Governments regularly run a deficit when the money they take from their citizens in the form of tax is less than what they spend. In that case they have three options:

* Increase taxes (which has the risk of scaring off multinationals, putting small companies out of business and driving the economy into recession.
* Decrease expenditure (which would lower the standards of living of the least well off, increase unemployment.
* Borrow the money from more- than- willing- to-lend investors.

In justifying my answer in terms of advising Nigerians situation at hand, I will agree to borrowing. But there are things we need to look at when talking about borrowing. The number one thing is to know if we are going to make use of the purpose which they were borrowed.

1. What are the indicators of Laissez Faire economy by Adam Smith?

-According to smith he viewed the economy as a natural system and the market as an organic part of that system. Smith saw laissez faire as a moral program and , the market its instrument to ensure men the rights of natural law. 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. It is, therefore, according to Adam Smith, the production by individuals is led as if by the ‘invisible hand’, to promote social welfare. By extension, free markets become a reflection of the natural system of liberty.

2a.) As the new chief economic adviser of your state how best will you want your tenure to be remembered, noting that government cannot do it all alone.

 As the newly elected economic adviser of Gombe state, my roles shall be stated as follows:

* + I would advise the government on effective imposing of taxation on citizens
	+ The government shall be encouraged to save and also invest for the country in case of casualties and emergencies. Just like the pandemic situation of the covid-19 happening presently.
	+ I would also advise the government specially on the generation of revenue, most importantly on agriculture due to the nourishment of the land of Gombe state.

2b.)  With practical examples, identify the canons of taxation as proposed by Adam Smith. How practical are the canons to the Nigeria?

By canons of taxation we simply mean the characteristics or qualities which a good tax system should possess. In fact, canons of taxation are related to the administrative part of tax. Adam smith first devised the principles or canons of taxation in ***1776.***

* Canon of equality or equity
* Canon of certainty
* Canon of economy
* Canon of productivity
* Canon of elasticity
* Canon of equality or equity: Canon of equity states that the burden of taxation must be distributed equally or equitably among the taxpayers.
* Canon of certainty: The tax which an individual has to pay should be certain and not arbitrary.
* Canon of economy: This canon implies that the cost of collecting a tax should be as possible. Any tax that involves high administrative cost and unusual delay in assessment and high collection of taxes should be avoided altogether.
* Canon of productivity: According to a well- known classical economist in the field of public finance, Charles F. Bastable, taxes must be productive or cost-effective.
* Canon of elasticity: Modern economist attach great importance to the canon of elasticity. This canon implies that a tax should be flexible or elastic in the yield.
* In recent times, these cannons have only be practicable 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.