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Question 1

Public expenditure is the spending made by the government of a country on collective needs and wants such as pension, provision, infrastructure, etc. until the 19th century, public expenditure was limited as laissez faire philosophies believed that money left in private hands could bring back more returns. In the 20th century J.M Keynes argued the role of public expenditure in determining the level of income and distribution in the economy.

This statement “Theories of public expenditures increase as population increases” is **true** as some of the following reasons are stated below

Causes of growth of public expenditure

There are several factors that have led to an enormous increase in public expenditure through the years

1) Defense expenditure due to modernization of defense equipment by the navy, army and air force to prepare the country for war or for prevention causes-for-growth-of-public-expenditure.

2) **Population growth** – It increases with the increase in population, more of investment is required to be done by government on law and order, education, infrastructure, etc. investment in different fields depending on the different age group is required.

3) Welfare activities – welfare, mid-day meals, pension provisions etc.

* Provision of public and utility services – provision of basic public goods given by government (their maintenance and installation) such as transportation.
* Accelerating economic growth – in order to raise the standard of living of the people.
* Price rise – higher price level compels the government to spend an increased amount on purchase of goods and services.
* Increase in public revenue – with the rise in public revenue government is bound to increase the public expenditure.
* International obligation – maintenance of socio-economic obligation, cultural exchange etc. (these are indirect expenses of government)

The statement “National expenditure increases in developmental stages” is **TRUE**

The studies on the relationship between government expenditure and economic growth provide mixed evidence. Wu et al. (2010) found an overall positive impact of the government expenditure on the growth for 182 countries where panel data are used covering the period of 1950-2004. However, when countries are grouped by income levels, they found a negative effect of government expenditure on the economic growth of low income countries which may be due to the inefficiency of governments and poor institutions.

As inflation may have both positive and negative impacts on the economic growth of developing countries (Baharumshah et al., 2016), it is important to understand the relationship in South Asia. Furthermore, many empirical studies have investigated the impact of government consumption spending on economic growth (Grossman, 1988) and recent studies have found a link between these two variables in developing countries (Wu et al., 2010). ...

For example: high government expenditure might come from greater taxing on the people reducing their disposable income; and in the presence of corruption and inefficiency in public spending, specifically in the low-income and lower-middle countries, high government expenditure may be financed by substantial borrowing. This may lead to crowding-out effect if government expenditure exceeds the threshold level (Chen and Lee, 2005;Wu et al., 2010). Unfortunately, the argument of corruption and government inefficiency in spending is more applicable for the developing countries in South Asia.

Question 1b

If I have been contacted to as Chief Economic planner of the state on the subject “corruption in Nigeria is endemic: challenges and solution here are some of the following solutions I would recommend a country like Nigeria should do

Solutions to the problems of corruption in Nigeria

1. Developing a stronger and sustainable political will and commitment that is matched by actions
2. Improve coordination at all levels including international corporations so that Nigeria could gain assistance
3. Reduce political interference
4. Development of democratic standards
5. Improving rule of law so that the vulnerabilities that aid corruption would be reduced
6. Civil societies can be made stronger as such promotions can demand actions against corruption

Question 2

Government failure, in the context of public economics, is an economic inefficiency caused by a government intervention, if the inefficiency would not exist in a true free market. It can be viewed in contrast to a market failure, which is an economic inefficiency that results from the free market itself, and can potentially be corrected through government regulation. The idea of government failure is associated with the policy argument that, even if particular markets may not meet the standard conditions of perfect competition required to ensure social optimality, government intervention may make matters worse rather than better.

**Scenarios in which government failure could occur**

Economic crowding out

Crowding out is the displacement of private sector investment by way of higher interest rates, when the government expands its borrowing to finance increased expenditure or tax cuts in excess of revenue. Government spending is also said to crowd out private spending by individuals.

Regulatory

Regulatory arbitrage is a regulated institution's taking advantage of the difference between its real (or economic) risk and the regulatory position.

Regulatory capture is the co-opting of regulatory agencies by members of or the entire regulated industry. Rent seeking and rational ignorance are two of the mechanisms which allow this to happen.

Regulatory risk is the risk faced by private-sector firms that regulatory changes will hurt their business.

Alexander Hamilton of the World Bank Institute argued in 2013 that rent extraction positively correlates with government size even in stable democracies with high income, robust rule of law mechanisms, transparency, and media freedom.

Many Austrian economists, such as Murray Roth bard, argue that regulation is the source of market failure in the form of monopoly, adding that the term "natural monopoly" is a misnomer. From this perspective, all governmental interference in free markets creates inefficiencies and are therefore less preferable to private market self-correction.

Question 2b

With 1.39 million coronavirus cases and 79,382 deaths globally, the world continues to battle the COVID-19 pandemic. Even before the outbreak, the outlook for the world economy and especially developing countries like Nigeria was fragile, as global GDP growth was estimated to be only 2.5 percent in 2020. While many developing countries have recorded relatively fewer cases. Nigeria currently has 782 confirmed cases and 25 deaths as at the 21st of April 2020, the weak capacity of health care systems in these countries is likely to exacerbate the pandemic and its impact on their economies.

THE IMPACT ON THE NIGERIAN ECONOMY

Before the pandemic, the Nigerian government had been grappling with weak recovery from the 2014 oil price shock, with GDP growth tapering around 2.3 percent in 2019. In February, the IMF revised the 2020 GDP growth rate from 2.5 percent to 2 percent, as a result of relatively low oil prices and limited fiscal space. Relatedly, the country’s debt profile has been a source of concern for policymakers and development practitioners as the most recent estimate puts the debt service-to-revenue ratio at 60 percent, which is likely to worsen amid the steep decline in revenue associated with falling oil prices. These constraining factors will aggravate the economic impact of the COVID-19 outbreak and make it more difficult for the government to weather the crisis.

AGGREGATE DEMAND WILL FALL, BUT GOVERNMENT EXPENDITURE WILL RISE

In Nigeria, efforts were already being made to bolster aggregate demand through increased government spending and tax cuts for businesses. The public budget increased from 8.83 trillion naira ($24.53 billion) in 2019 to 10.59 trillion naira ($29.42 billion) in 2020, representing 11 percent of the national GDP, while small businesses have been exempted from company income tax, and the tax rate for medium-sized businesses has been revised downwards from 30 to 20 percent. Unfortunately, the COVID-19 crisis is causing all components of aggregate demand, except for government purchases, to fall.

The fall in household consumption in Nigeria will stem from 1) partial (or full) restrictions on movement, thus causing consumers to spend primarily on essential goods and services; 2) low expectations of future income, particularly by workers in the gig economy that are engaged on a short-term/contract basis, as well as the working poor in the informal economy; and 3) the erosion of wealth and expected wealth as a result of the decline in assets such as stocks and home equity. The federal government has imposed a lockdown in Lagos and Ogun states as well as Abuja (which have the highest number of coronavirus cases combined). Subnational governments have quickly followed suit by imposing lockdowns in their states. Nigeria has a burgeoning gig economy as well as a large informal sector, which contributes 65 percent of its economic output. Movement restrictions have not only reduced the consumption of nonessential commodities in general, but have affected the income-generating capacity of these groups, thus reducing their consumption expenditure.

Investments by firms will be impeded largely due to the uncertainties that come with the pandemic-limited knowledge about the duration of the outbreak, the effectiveness of policy measures, and the reaction of economic agents to these measures—as well as negative investor sentiments, which are causing turbulence in capital markets around the world. Indeed, the crisis has led to a massive decline in stock prices, as the Nigerian Stock Exchange records its worst performance since the 2008 financial crisis, which has eroded the wealth of investors. Taking into consideration the uncertainty that is associated with the pandemic and the negative profit outlook on possible investment projects, firms are likely to hold off on long-term investment decisions.

On the other hand, government purchases will increase as governments, which typically can afford to run budget deficits, utilize fiscal stimulus measures to counteract the fall in consumer spending. However, for governments that are commodity dependent, the fall in the global demand for commodities stemming from the pandemic will significantly increase their fiscal deficits. In Nigeria’s case, the price of Brent crude was just over $26 a barrel on April 2, whereas Nigeria’s budget assumes a price of $57 per barrel and would still have run on a 2.18 trillion naira ($6.05 billion) deficit. Similarly, with oil accounting for 90 percent of Nigeria’s exports, the decline in the demand for oil and oil prices will adversely affect the volume and value of net exports. Indeed, the steep decline in oil prices associated with the pandemic has necessitated that the Nigerian government cut planned expenditure. In fact, on March 18, the minister of finance announced a 1.5 trillion naira ($4.17 billion) cut in nonessential capital spending.

The restrictions on movement of people and border closures foreshadow a decline in exports. Already, countries around the world have closed their borders to nonessential traffic, and global supply chains for exports have been disrupted. Although the exports of countries that devalue their currency due to the fall in the price of commodities (like Nigeria), will become more affordable, the limited markets for nonessential goods and services nullifies the envisaged positive effect on net exports.