**Name: Oriahi Benita**

**Department:Economics**

**MATRIC No:17/sms01/033**

**Course:Eco304 (Public Finance)**

**What is public expenditure?**

Public expenditure is spending made by the government of a country on collective needs and wants such as pension, provision, infrastructure, etc.

 **Causes of increase in 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.

4) Foreign aid – Acceptance by the richer industrialized countries of their responsibility to help the poor developing countries has channeled some of the increased public expenditure of the donor country into foreign aid program

5) Inflation – This is the general rise in the price level of goods and services. It increases the cost of all activities of the public sector and thus a major factor in growth in money terms of public expenditure.

**Effects of public expenditure:**

1).Effects on Economic Stability:

Economic instability takes the form of depression, recession and inflation. Public expenditure is used as a mechanism to control instability. The modern economist Keynes advocated public expenditure as a better device to raise effective demand & to get out of depression. Public expenditure is also useful in controlling inflation & deflation. Expansion of Public expenditure during deflation & reduction of public expenditure during inflation control money supply & bring price stability.

2). Effects on Economic Growth:

The goals of planning are effectively realized only through government expenditure. The government allocates funds for the growth of various sectors like agriculture, industry, transport, communications, education, energy, health, exports, imports, with a view to achieve impressive growth.

Government expenditure has been very helpful in maintaining balanced economic growth. Government takes keen interest to allocate more resources for development of backward regions. Such efforts reduces regional inequality and promotes balanced economic growth.

3. Effects on Consumption

Public expenditure enables redistribution of income in favour of poor. It improves the capacity of the poor to consume. Thus public expenditure promotes consumption and thereby other economic activities. The government expenditure on welfare programs like free education, health care and housing certainly improves the standard of the poor people. It also promotes their capacity to consume.

 **What is Population growth?**

Population growth is the increase in the number of individuals in a population.

 **Public expenditure increase and Population growth:**

Seeing that population growth is the number of persons living in a country, we can therefore say that population increase can also be a factor in increasing public expenditure. The more people living in a country, the more the government is likely to spend for social and infrastructural facilities for the people.

**National expenditure increases in developmental stages, how correct is this?**

Government expenditure as a share of GDP in low- and middle-income countries, on average, is lower than comparable shares in industrial market economies and, with few exceptions, is growing. Many factors, including ideology, demographics, a positive income elasticity for public goods, the rising cost of public goods relative to private goods, and perhaps development theory and practice, explain this growth. As for the relationship between government expenditure and economic growth, the empirical evidence does not reveal any strong correlation. The size of government may engender strong ideological debate, but the position that the aggregate level of government expenditure is a significant determinant of growth rates receives little support.

**Question (b)**

 **Corruption in Nigeria is endemic**

Corruption as we know is everywhere from families to schools, offices and on the largest scale, countries. Nigeria as we know is said to be one of the most corrupt among countries.

Corruption remains a priority concerns to the Nigerian Government and People. Corruption affects all aspects of public life, continues to undermine the social, economic and political development of the country and is a major obstacle to the achievement of the Sustainable Development Goals.

 **CHALLENGES:**

1. The fight against corruption remains uncoordinated, without a well-established plan
2. Citizens believe the fight against corruption has become a “witch-hunt” against members of the opposition party (PDP, previous ruling party)
3. There has not been a single major conviction; all of the politically exposed individuals are yet to be prosecuted

**Solutions to corruption:**

1. Develop a strong and sustained political will and commitment that is matched by action
2. Improve coordination at all levels including international cooperation so Nigeria can obtain assistance
3. Reduce political interference

**4)**Societies affected by corruption must develop basic democratic standards, such as freedom of speech and respect for fundamental human rights

**5)**Improve the rule of law in order to overcome the vulnerabilities that aid corruption

**6)**Promote a strong civil society that can demand action against corruption

**Question 2**

**What is government Failure?**

 Government failure refers to when the government intervenes in the economy to fix a problem, but only ends up creating more problems. That means it harms social welfare and/or makes the market less efficient. In order for government failure to occur, there first has to be a market failure. That means that the market is failing to produce positive outcomes for society. The government will then decide whether and how to intervene. If the government intervenes and only makes the problems worse, then it has failed.

**Scenarios of which government failure can occurs:**

**1) Distortion of the price mechanism:**

Intervention through taxation, through subsidization, or via other interventions can result in a distortion of markets and a weakening of the operation of the price mechanism. Taxes and subsidies on goods and services can artificially raise or lower prices and distort how markets work to allocate scarce resources.

Direct taxation can create a disincentive effect for households and firms. We have seen that taxes on harmful demerit goods, where demand is inelastic, may simply mean that more income is allocated to expenditure on harmful goods, and hence less income is available for spending on beneficial goods.

The same is possible with the imposition of a minimum price, such as the one on alcohol, where spending is distorted with the consumer allocating more income to alcohol rather than less.

**2) Costs of administration;**

Excessive bureaucracy is also a potential government failure. This is caused by the public sector when it tries to solve the principal-agent problem. Government must appoint bureaucrats to ensure that its objectives are pursued by the managers of public sector organizations, such as the NHS.

Intervention through the imposition of taxes, or through legislation incurs various administration costs. Taxes must be collected through government departments, including Her Majesty’s Customs and Excise (HMRC) and laws must be enforced through the legal system. Both of these incur considerable costs.

**3)Imperfect knowledge;**

Information failure is also an issue for governments, given that government and policy makers do not necessarily ‘know’ enough to enable them to make effective decisions about the best way to allocate scarce resources.

Government intervention requires decisions to be made about the degree of intervention and its timing. In order to prevent or reduce market failures, tax rates need to be set and level of subsidies and minimum prices must be decided. However, governments and agencies do not have access to all the knowledge that it required to set the necessary rate or level to achieve the desired outcome. For example, if the government wishes to get 3 million students to attend university each year it may decide to subsidies tuition fees, but it is highly unlikely that it could achieve such a target with precision.

1. **Law of unintended consequences;**

Finally, and related to the idea of information gaps, is idea that intervention can result in outcomes which were entirely unplanned and unpredicted. Traffic calming measures may encourage drivers to speed up in areas or stretches of roads between speed bumps, cameras or warning signs – with a result that ‘average’ speeds increase. This resulted in new systems which track average speeds. However, in an average speed area drivers may drive a below the speed limit so that they can speed up along other parts of the journey.

When assessing any intervention in the micro or macroeconomy government failures are a common source of evaluation points.

**Question b**

**COVID19(corona virus); worldwide pandemic**

Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus.

Most people infected with the COVID-19 virus will experience mild to moderate respiratory illness and recover without requiring special treatment. Older people, and those with underlying medical problems like cardiovascular disease, diabetes, chronic respiratory disease, and cancer are more likely to develop serious illness.

**Effect of the corona virus to the Economy;**

 As it is we’ll know, the spread of the corona virus has brought a standstill to the economy of most countries battling with it with Nigeria as no exception. Here are some of the effect of corona virus to Nigeria’s economy;

1. Sector-specific implications and impacts could vary. For example, the impacts on the global aviation and tourism sectors are a result of the implications of the pandemic on global travel. As discretionary spending by consumers continues to decline, cruise companies, hotels, and hospitality are facing declining demand and patronage.
2. The virus is also taking its toll on health facilities and infrastructures across the globe. Most hospitals and health facilities that could not handle the hazards are resulting to operating below their capacity by taking a few regular health-related cases or shutting down. What could be more devastating is the fact that the economic pains that accompanied the virus might not go away soon as envisaged.
3. The decision to close educational institutions and schools around the globe in an attempt to contain the pandemic has also led to a soaring number of children, youth and adults not attending schools.

**Lockdown effect on combating the virus**

As said earlier, the spread of the corona virus has brought countries to a standstill mostly due to “the lockdown” government enforced. Although this law is very hard on citizens as people have to in all put their daily lives on hold, this is the best policy for combating the virus as the lockdown keeps people in their houses which in turn helps to reduce the spread of the disease.