NAME: Nellieken Attah Ochinke

MATRIC NO: 17/SMS01/027

COURSE: ECO 304

**QUESTION 1**

Public expenditure, also known as government expenditure, is the totality of all spending made by the government of a country on the needs of the nation and its citizens. Government expenditure is a crucial tool of fiscal policy used to regulate the economy and distribute income fairly. Public expenditure has shown increase over the times as countries develop. Some experts attribute this increase to rising population levels while others opine that it has to do with the economic development of the nation. These scholars believe that public expenditure occurs in stages, in time with the stages of development.

The idea that public expenditure would increase as population increases is not a far-fetched one. The government of a country spends a lot of its income on protecting the lives and property of its citizens, providing infrastructure as well as other capital and recurrent expenditure. As population grows, there will be a need for government to update its facilities and increase its activities to accommodate the rise in population. The government would spend more of its money to provide education, healthcare and other facilities.

This rise in population would also result in increased tax revenue for the government. It is a generally accepted principle that people tend to spend more money when their income increases. The same applies to governments and public expenditure.

Population increase will also necessitate a rise in the welfare activities of the government. Pension provisions will have to increase in preparation for the increased number of pensioners, therefore causing higher spending. Government spending on subsidies will increase because of an increase in the demand for subsidized products. Increased use of facilities will result in wear and tear and higher maintenance cost. In short, rising population does come with rising cost.

Population growth can cause an inflation of prices, especially when too many people are chasing fewer goods. This inflation of prices will generally increase the cost of government activities causing them to spend more. It is worthy of note however, that in order to regulate inflation, most governments will reduce their expenditure and increase their taxes to deflate the prices.

From the above points, it can be inferred that population and public expenditure tend to have a direct relationship. Thus, a rise in population will necessitate arise in government expenditure.

Other scholars believe that government expenditure increases due to development. That is, as the economy develops, spending will increase due to increased capital projects and higher incomes that come with economic development. One theory that explains how government expenditure increases as population increases is Wagner’s Law. The law says that as income growth expands and the state becomes more industrialised, the share of government spending in the economy increases. Wagner attributed this increase to increased socio-political functions and more economic functions.

Essentially, it explains that as the economy develops, the functions of the government such as pension programs, aid programs etc. increases. Not to mention that there would be more government investments in this developing economy thereby leading to increased government expenditure. On the most basic level, Wagner explains that as national income rises, government expenditure rises to meet the demands of the people.

It is important to note that as income growth expands due to development, revenue accruing to the government also increases. The more revenue the government makes, the more it spends.

Government expenditure can increase due to those two theories. It is imperative that we understand how these theories apply practically and not just theoretically, using Nigeria as a case study.

Most countries in the world have experienced increased government expenditure over the years and Nigeria is no exception to this. The major cause of this increase can be attributed to our growing population which is coupled with increased rates of urbanisation as well as increased revenue from taxes, and inflation. These factors are the most significant when determining the causes of the growth in revenue.

**QUESTION 1B**

Corruption is a fraudulent and unscrupulous offense carried out by those in power illegally, to accrue benefits to them. Endemic corruption specifically describes corruption that is largely due to the weakness or ineffectiveness of a government process or organisation rather than one individual or group being corrupt. Endemic corruption is a major problem faced in the Nigerian government. We lack the systems needed to effectively prevent fraud. Poor administration and management also plays a hand, making it easy to skirt the law because the justice systems are weak. Government officials can routinely get away with large acts of fraud simply because there are few barriers to stop them.

**QUESTION 2**

Government failure is a situation where an inefficiency or issue arises in the economy as a result of government interference in the market. It is where the actions of the government create inefficiencies that otherwise would not have existed. It is not to be confused with market failure where the inefficiencies arise from the market itself and can usually be corrected by government intervention. Government failure occurs when actions of the government aren’t pareto optimal.

Government failure can take many different forms. One of these forms is price distortion. Price distortion is when the balance of the price mechanism and the forces of demand and supply fail. The marker is in disequilibrium. When the government sets price levels, it can distort the equilibrium of the market and how resources are usually allocated.

Taxes and subsidies are also distortions that exist in the market. They artificially raise or lower prices and can even change the behaviour of a consumer. Taxes on goods that are inelastic may simply increase the amount of income set aside to purchase those goods rather than reduce their demand. Subsidies may also create artificial barriers to entry of a market.

Government failure can also be an unintended consequence of well-meaning government actions. Intervention may result in unplanned side effects that disrupt market functions in an unforeseen manner. Taxes set on harmful goods such as alcohol to reduce its consumption, may lead to an increased income of alcohol producing countries, enabling them to increase production and availability of their products. This is a good example of unintended consequences.

Corruption and pursuit of personal gain can cause government failure. When individuals in power take decisions based on what will most benefit them or a specific group, rather than what benefits the country as a whole. A good example of this can be seen during election times when expenses on infrastructure increases in a bid to get re-elected. Government officials engage capital projects close to election times to encourage citizens to elect them. Another example of this is when governments are prejudiced in the allocation of resources or show nepotism and favouritism in this process. Rather than allocating the resources in an efficient manner. This can cause issues and lead to government failure.

Government failure can occur in many situations, thus it is important to have strong systems in place to prevent government failure, or fix it should it occur.

**QUESTION 2B**