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1). PUBLIC EXPENDITURE  
WILL CONTINUE TO GROW  
EXPLAIN,

Answer

Public expenditure grows in response to growth in the general price level, which means that even if the population does not increase , or it's growth rate remains constant , the public expenditure will still increase to keep pace with the rising costs of inflation.

Some of the main causes of the growth of public expenditure are

1). **1. Income Elasticity and Increase in Per Capita Income**

2). **Welfare State Ideology and Wagner's Law**

3). **Effects of war and the**

**need for defense**

**4). Inflation**

**5).the role of socialism**

1A) The basic principles of the canons of public expenditure implies that government should plan his expenditure in a manner as to promote the greatest good of the greatest number  
The following are the canons of public expenditure:

1). Canon of economy- The canon of economy , as canons of public expenditure suggests that the State should be economical in spending. It implies two things, Firstly; the Government should not spend more than the amount required to be spent on particular item of expenditure. Secondly, The State should spend money in such a way that might develop the productive capacity of the community as much as possible.

2). Canons of Maximum benefits-The principle of maximum social benefit, as canons of public expenditure, implies that the Government should plan its expenditure in a manner as to promote the greatest good of the greatest number.

3). Canons of Sanctions-What it implies is that the Government, before incurring any expenditure on any item should obtain the proper sanction and approval of the competent authority.

4). Canons of elasticity-Flexibility must be there in public expenditure. It implies that the expenditure may be expended or contracted according to the requirement of the time.

WHY DO GOVERNMENT BORROW

—The total amount government has borrowed is known as the "NATIONAL DEBT OR THE PUBLIC SECTOR DEBT"

Looking at the Economic situation of Nigeria I will advice borrowing because

1. Nigeria is a developing country
2. 35% of its population living under poverty
3. The country's per capita gross domestic product is too low
4. The country's living standards is low

THERE ARE MANY DIFFERENT REASONS FOR GOVERNMENT BORROWING:

1). **TO FINANCE DEFICIT BUDGET**- when government plans a deficit budget it resorts to borrowing in order to finance it.

In a recession, government tax revenues fall (e.g. people

earn less so pay less income tax). Also, the government have to spend more on unemployment benefits. Therefore, in an economic downturn, borrowing rises. To eliminate borrowing in a recession would make the recession worse and increase inequality. If the government couldn't borrow in a recession, the unemployed may not get any benefits and have no income.

## 2). FLUCTUATION OF NATIONAL INCOME-

Government May Decide to borrow when it's total income earned over a period of time falls below expectation.

Borrowing means the government can meet a temporary shortfall by borrowing, rather than having to immediately cut back on spending.

### 3). TO FINANCE A HUGE CAPITAL PROJECT

Government of a country borrows in order to finance a huge capital project which the recurrent expenditure cannot finance.

The government may invest in public sector investment, For example, building schools, hospitals, better roads. This investment can give a return on the investment which helps to boost productive capacity and increase economic growth. In this case, the government is acting like a firm who takes out a loan to finance investment.

### 4). TO PROCURE WAR MATERIALS-

During war, Most governments might not be prepared financially , so in order to procure the materials like ( gun , ammunitions) they need to borrow.

During a war, government spending is stretched leading to higher borrowing. The highest rates of borrowing occurred during the two world wars. Also, during wars, it may be easier to sell bonds as you can play the patriotic card to encourage people to finance government borrowing.

#### 5).SERVICING OF LOAN

Government borrow sometimes to enable it pay interest loans it obtained and to repay debts that are due which is called funding operation .

#### Question 2

Indicators of Laissez faire economy by Adams smith  
Solution—

The main main characteristic of the lasissez-faire economy is "INDIVIDUALIZED INDEPENDENCE"  
Government intervention is

minimal .

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 chief economic Adviser of Ogun state I will do the following

- 1). I will provide the economic survey of Ogun state
- 2). I will provide the national budget to my state
- 3). I would provide the state government on how to generate more revenue for the state from our natural resources such as  
Granite stone  
Limestone  
Glass sand  
Crude oil  
Bitumen Etc.

4). I would impose effective tax system on citizens and companies/firms .

2B).

1) .Canon of equity-

According to Adams Smith's canon, taxation imposed on an individual should be in accordance with his ability to pay

2). Canon of certainty - A tax should not cause hardship to the tax payer.

Therefore , this canon requires the tax payer should be certain about the amount , time and revenue of payment

3). 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

4). Canon of economy -this principle indicates that good tax system will require the least possible expenditure on collection of taxes .

The canon's of taxation are

practical in Nigeria

Here in Nigeria the P.A.Y.E  
SCHEME IS USED

“PAY AS YOU EARN”

Which enables people to pay  
according to the amount  
they earn