PUBLIC FINANCE
REPUBLIC OF IRELAND

Diploma stage examination

13 December 2006

From 2.00pm to 4.00pm
plus ten minutes reading time from 1.50pm to 2.00pm

Instructions to candidates

Answer three questions in total:
One** compulsory question from **Section A
Two** of the three questions from **Section B

The question in Section A carries, in total, 40 marks
The questions in Section B each carry a total of 30 marks

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.

AT THE HEART OF
YOUR CAREER

SECTION A – (Compulsory)

1 Governments must pay attention to public spending levels, as the implications of raising public revenue must be taken into consideration in weighing up public spending decisions. The majority of public spending in Ireland is financed via taxation as our ability to raise government debt is constrained under the provisions of the Stability & Growth Pact. The choice between the balance between taxation and debt is a central question for public finance economists.

- **Requirement for question 1**

(a) Outline your understanding of the *excess burden* (or *deadweight loss*) of taxation. *12*

(b) How can we strive to minimise this *excess burden*? *8*

(c) What other factors need to be considered in the design of a “good” tax system? *8*

(d) Does the raising of government debt create a burden? *7*

(e) Briefly describe the function and operation of a Government Bond. *5*

(40)

SECTION B – (Answer two questions from this section)

2

A common measure of public sector size is the G/GDP ratio. This ratio effectively measures the ratio of public spending relative to total economic activity for a period (usually one year). Analysis of this ratio in Ireland relative to the OECD average uncovers some interesting trends. In fact, Ireland was one of the few countries that managed to bring about a reduction in this ratio in recent history.

- **Requirement for question 2**

(a) Outline your understanding of this measure, including a description of the components above and below the line. *4*

(b) Describe, in general terms, the behaviour of this ratio in Ireland from the early - 1970s to the present day. *6*

(c) Discuss in the Irish context any three factors that can influence this measure. *9*

(d) What are the risks associated with making international comparisons? *7*

(e) A recent government programme listed the reduction of this ratio as an objective over the government term. Do you agree with such an objective? Give reasons for your answer. *4*

(30)

3 The annual budget is a key event both in terms of framing the Irish public finances and in the financial and economic management of the State. Its significance has grown over the past 40 years due to the significant expansion of the public sector and the much larger role played by the Government in all aspects of the economy. Budgeting must, therefore, be regarded as much more than a routine book-keeping exercise; it involves politics, public administration and economics and may by its impact have important social consequences.

- **Requirement for question 3**

(a) Budget 2006 published the following projections:

(i)	Current budget surplus:	€4,397m	*6*
(ii)	Capital budget deficit:	€7,324m	*6*
(iii)	Debt ratio:	28% of GDP	*6*

In relation to **each** of the projections above, you are required to explain its significance in terms of budgetary policy and comment on its appropriateness to the current Irish budgetary context.

(b) What relevance does the *Stability and Growth Pact* have for budget formulation? *6*

(c) Describe any two theories governing the growth of government expenditure in the context of their influence on Budget 2006. *6*

(30)

4

The modernisation agenda has infiltrated every public sector organisation to some extent. The public sector is finding it increasingly difficult to meet growing demands for new services along with the continued provision of more traditional roles.

- **Requirement for question 4**

(a) Drawing on examples from the Irish public finances, describe each of the following roles for Government:

(i) allocation role *5*
(ii) redistribution role *5*
(iii) stabilisation role *5*

(b) Budget 2006 committed to the incorporation of outputs and objectives within the budget documentation with effect from 2007. Assess the main difficulties associated with the incorporation of performance information into the budget process. *10*

(c) The NESC Report *Achieving Quality Outcomes* concluded that the incentives and constraints governing public spending decisions could be improved. Outline any two of their suggestions. *5*

(30)