

**PUBLIC FINANCE
REPUBLIC OF IRELAND**

Diploma stage examination

16 June 2006

From 10.00am to 12.00pm
plus ten minutes reading time from 9.50am to 10.00am

Instructions to candidates

*Answer three questions in total: **One** question from **Section A**, and **two** questions from **Section B**. The marks available for each question are shown in italics in the right-hand margin.*

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.

Section A (Compulsory)

1

Budget 2006 forecast taxation revenues of €41.6 billion for the year. In the context of raising this revenue, you are required to discuss the following:

- **Requirement for question 1**

- (a) Using examples from the Irish tax system outline the difference between a progressive and a regressive tax. 8
- (b) Does inflation impact the Irish tax system? Support your answer with examples. 8
- (c) Budget 2006 announced a cap on the availability of tax relief for high-earning individuals. Discuss this provision in the context of the three criteria of taxation. 14
- (d) Explain your understanding of the term *tax elasticity factor*. 5
- (e) How can taxes be used to address market failure? 5

(40)

Section B (Answer two questions from this section)

2

"Over the past decade there has been strong growth of public expenditure but there are still considerable deficits in the quality and provision of social services as well as infrastructural deficits. Addressing these social and infrastructural deficits is critically dependent on the effective management of public expenditure".

Achieving Quality Outcomes, NESC, 2002

• **Requirement for question 2**

- (a) Describe three theories governing the growth of public expenditure. In each instance, explain its relevance for the Irish public finances 9
- (b) In the case of each of the following financial management reforms, explain how its introduction will lead to improved financial management in the Irish public sector:
 - (i) Accruals accounting 4
 - (ii) Expenditure Review 4
 - (iii) Performance indicators 4
- (c) Outline any two rationales for government intervention in an economy. 9

(30)

3

Budget 2006 included a commitment to reform the budget model going forward to include Departmental statements on outputs and objectives to accompany annual estimates.

- **Requirement for question 3**

- (a) Identify and discuss the problems associated with the present budget model in terms of the optimal allocation of public resources. 10
- (b) What suggestions could you put forward to remedy the issues identified in part (a)? 8
- (c) Outline the role and functions of an Accounting Officer. 8
- (d) What improvements can the *Administrative Budget Initiative* bring to the management of the public finances? 4

(30)

4

"As regards the Government's finances we have set a target for a General Government Deficit next year of 0.6 per cent, as measured by the EU, together with a debt ratio of 28 per cent of GDP. This debt ratio is one of the lowest in the EU."

Excerpt from Budget Speech, December 2005

- **Requirement for question 4**

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| (a) What factors can influence the Debt / GDP ratio? | 8 |
| (b) In your view, what has contributed to the reduction in Ireland's debt ratio to a level of 28%? | 6 |
| (c) What relevance does the Stability and Growth Pact have for government borrowing? | 8 |
| (d) Can government borrowing affect interest rates in the economy? | 8 |

(30)
