

B.A. (Honours) Examination, 2019

Semester–VI

Economics

Course – H-16

(Public Finance)

Time: Three Hours

Full Marks: 40

Questions are of value as indicated in the margin.

Answer **anyfour** questions.

1. In the context of welfare analysis, discuss and illustrate the debate between equity and efficiency and demonstrate how both can be achieved. Does this debate allow any scope for government intervention? 8+2
 2. (a) In a utility framework where there are two consumers, Adam (A) and Eve (E), each consuming a public good (z) and a private good (b), derive the Samuelson condition for optimum provision of public good under resource constraint.
(b) Let $U_A = u_A + 10z$ and $U_E = (b_E)^{1/2} z^{1/2}$. Assume that the economy is endowed with one acre of land that can produce 50 units of b . Using Samuelson condition, derive Pareto optimal allocation of b^*_A , b^*_E , and z^* , where Adam (A)'s utility is fixed at \bar{U}_A which is less than 50. 5+5
 3. (a) Define 'externality' and explain why the market fails in its presence.
(b) Discuss Coase theorem in this context and show that if property right is not well defined the theorem cannot internalize the externality. 3+7
 4. (a) What is Pigouvian tax? How the tax rate is determined? How does it internalize the problem of externality?
(b) Can a Pigouvian subsidy also solve the problem efficiently? Check. 6+4
 5. (a) Discuss the relationship between elasticities of demand & supply and share of tax burden.
(b) Imposing an ad valorem tax in a monopoly framework, show how does the monopoly profit change? 4+6
 6. (a) Explain and illustrate clearly why an incidence of a commodity tax distorts the economic efficiency of that market.
(b) Prove that this is also true for income tax but not true for lump sum tax. 5+5
 7. (a) "It is better to use a compensated rather than an ordinary demand curve to show the existence of an excess burden" – examine and justify the statement.
(b) Show that even subsidy entails excess burden. 6+4
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