B.A. (Honours) Examination, 2015
Semester-VI
Economics
Course – H.16
(Public Economics)

Time: 3 Hours **Full Marks: 40**

Questions are of value as indicated in the margin.

Answer ***any four*** questions.

1. In a 2 X 2X 2 pure exchange economy, derive the efficiency condition for consumption and production. From there, prove and illustrate the 1st fundamental welfare theorem in Economics. 6+4

2. (a) In a two-person, two good case, assume that there is one private and one public good. Derive the Samuelson condition for optimum provision for pure public good in a utility maximizing framework.

   (b) Consider an economy in which there are 50 people, who consume a private good (bread) and a public good (Circuses). There are, however, two types of people (type 1 and type 2). Each type 1 person's marginal rate of substitution is $MRS_1 = 20 - z$ where z is the number of circuses. Each type 2 person's marginal rate of substitution is $MRS_2 = 30 - 2z$. There are 20 type 1 people ad 30 type 2 people. The economy's marginal rate of transformation is $MRT = 340+40z$. Find the optimal number of circuses. 5+5

3. State and prove Coase theorem in externality. 10

4. What are the different government instruments to tackle negative externalities? Which, according to you, is the best policy instrument and why? 4+6

5. (a) Distinguish between progressive and regressive taxation.

   (b) Assume that the demand curve is absolutely elastic and supply curve is usual shaped. How the market will be distorted when economic incidence of tax is on consumers and the nature of tax is – (i) unit and (ii) ad-valorem. 3+7

6. Show that between lump sum and income tax, the former does not and later does generate excess burden. 10

7. Why do we need a compensated rather than an ordinary demand curve to measure excess burden of taxation? Does subsidy also generate excess burden? 7+3

8. Write short notes on: 5+5

   (i) In-kind transfer vs. cash transfer

   (ii) Market Failure