

**M.A. Examination, 2018**  
**Semester-III**  
**Economics**  
**Course – OP-4 (Optional)**  
**(Public Economics & Policy)**

**Time: Three Hours**

**Full Marks: 40**

*Questions are of value as indicated in the margin*

Answer *any four* questions.

1. (a) Can free riding be efficient? Give examples and logically explain why free riding is efficient?
- (b) Does a larger population increase the overall likelihood that the public good will be provided?
- (c) Do you think volunteering “altruistic”? How does social norms influence to volunteer and reduce free riding behaviour? 3+3+4=10
2. (a) For the following prisoner’s dilemma in the context of provision of a public good. Show that

		Person 2	
		Contributes	deceives
Person 1	Contributes	3,3	1,4
	deceives	4,1	2,2

- (i) The Nash equilibrium will be invariant of decisions simultaneous or sequential. Explain.
- (ii) Is Nash equilibrium efficient in this case? What would be the role of government in providing the public good?
- (b) For national defence as a public good how does the prisoner’s dilemma arise both between countries and within countries? 6+4=10
3. (a) How does the choice of a discount rate affect decision of providing a public good based on cost-benefit analysis.
- (b) What are the rules of Clarke Tax?
- (c) Will low or high benefit people wish to be in a tax jurisdiction for financing of the public good when the other group determines public spending? 4+2+4=10
4. (a) How is the Coasean approach different from pigouvian approach in containing externalities.
- (b) “Though Pigouvian Tax and subsidy scheme both ensures optimal output there is a difference between the two systems”. Explain.

**P.T.O.**

(2)

- (c) How would you resolve the mutually beneficial externalities present in the case of honey and pollinating apple trees?  $2+4+4=10$
5. (a) Discuss “horizontal equity” and vertical equity of Taxation.  
(b) Define excess burden. How do you measure excess burden.  
(c) Derive the Ramsey rule for efficient Commodity Taxation in a two commodity framework. Do you think Ramsey rule ensures social justice?  $2+3+5=10$
6. (a) Show that fiscal policy is ineffective in a small open economy using a local-income-payments model.  
(b) Compare and contrast the centralised system with the decentralised one with regard to efficient spending on public goods.  $5+5=10$
7. (a) Explain the idea of perfect correspondence and decentralisation theorem.  
(b) How is the optimal size of a jurisdiction determined? In that context discuss briefly the issues of inter-jurisdictional externalities and cost of decision making.  $3+7=10$
8. Write short notes on **any two** of the following:  $2\times 5=10$
- (a) Weakest-link Public good.  
(b) Median Voter Theorem.  
(c) Tragedy of commons.  
(d) Tax burden and elasticities.
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