

SECOND SEMESTER M.A. DEGREE EXAMINATION, JUNE 2018

(CCSS)

Economics

ECO 2C 09—PUBLIC FINANCE AND POLICY

Time : Three Hours

Maximum : 80 Marks

Part A

*Answer all questions.**Each question carries 1 mark.*

1. This tax is a good example of ability to pay principle of taxes :

- (a) Excise tax on cigarettes. (b) Highway toll tax.
(c) Proportional sales tax. (d) Personal income tax.

2. The economic incidence of a unit tax is :

- (a) Generally borne by the buyers.
(b) Generally borne by sellers.
(c) Generally borne by the government.
(d) Independent of the statutory incidence for the tax.
(e) None of the above.

3. An increase in tax rate when tax base expands represents :

- (a) Progressive taxation. (b) Regressive taxation.
(c) Proportional taxation. (d) None of these.

4. Lump sum taxes :

- (a) Create no excess burden.
(b) Are not as widely used as other forms of taxation.
(c) Generally lack a sense of equity.
(d) All of the above.
(e) None of the above.

Turn over

5. A country has proportional system of taxation. A person pays Rs. 500 tax when his income is 5,000, how much tax he will pay if his earning rises to 8000 :
- (a) 200. (b) 400.
(c) 600. (d) 800. ✓
6. Beyond a certain point deficit financing will certainly lead to :
- (a) Inflation. ✓ (b) Deflation.
(c) Recession. (d) Economic Stagnation.
7. A 'public good' is best defined as :
- (a) A good which will benefit certain members of the public.
(b) A good which is available for purchase by the public. —
(c) A good supplied by a public company.
(d) A good supplied communally.
8. Interest on public debt is a part of :
- (a) National income. ✓
(b) Interest payments by households.
(c) Transfer payments by the Government.
(d) Transfer payments by the enterprises.
9. The difference between revenue deficit and grants for creation of capital assets is called :
- (a) Fiscal deficit. (b) Budget deficit.
(c) Effective revenue deficit. ✓ (d) Primary deficit.
10. Consider the following statements and identify the right ones :
- (i) Central government does not have exclusive power to impose tax which is not mentioned in state or concurrent list.
(ii) The constitution also provides for transferring certain tax revenues from union list to states :
- (a) (i) only. (b) (ii) only.
(c) both. ✓ (d) None.

(10 × 1 = 10 marks)

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Part B

*Answer any **eight** questions.
Each question carries 5 marks.*

11. Give a detailed account of the components of public expenditure in India.
12. Explain balanced budget multiplier.
13. Explain functional finance.
14. Critically analyse two prominent hypothesis of increasing state activity and public expenditure.
15. Explain Zero based budgeting.
16. Analyze Tiebout Hypothesis.
17. Discuss the model for efficient allocation of social goods.
18. Explain the concept of balanced budget multiplier.
19. Government is an agent for economic development. Comment.
20. Explain the theory of inter governmental transfer.
21. Explain the various methods of debt redemption.
22. Define the term federalism and compare and contrast it with unitary and confederation governments.

(8 × 5 = 40 marks)

Part C

*Answer any **two** questions.
Each question carries 15 marks.*

23. Discuss the allocation function of the government. How are allocation and stabilization linked with the functions of the government ?
24. Explain the theory of optimal taxation.
25. What are vertical and horizontal federal fiscal imbalances ? How can these federal imbalances be rectified ?
26. Elaborate on the concept of intergenerational equity in the backdrop of public debt.

(2 × 15 = 30 marks)