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Register Number:

DATE:

**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27**

**MA ECONOMICS – II SEMESTER**

**SEMESTER EXAMINATION: July 2022**

**EC 8218: Public Economics and Finance**

**Time- 2 ½ hrs Max Marks-70**

**This paper contains ONE printed page and THREE parts**

**PART A Answer any FIVE of the following 2 X5=10**

1. What is an impure public good?
2. Define production externality.
3. State the Pareto optimal condition for the combination of public-private goods.
4. State two assumptions of Arrow's Impossibility Theorem.
5. Briefly explain the displacement effect of the Wiseman-Peacock hypothesis.
6. What are rent-seeking activities? Illustrate.
7. State any two canons of taxations.

**PART B Answer any THREE of the following 10x 3=10**

1. What is the marginal benefit and the marginal cost of increasing the membership size of a club for a given quantity of the club good? Also describe marginal benefit and marginal cost of increasing quantity of goods while size is fixed.
2. Discuss IRR and Benefit-Cost Ratio to compare projects.
3. What is the rationale of the Lindhal process? Describe its main drawback.
4. Write a brief note on the burden of public debt.
5. Explain the benefit and ability to pay approaches to taxation.

**PART C Answer any TWO of the following 15 X2=30**

1. Write a note on impact, incidence and shifting of taxation.
2. A) Explain Tiebout hypothesis.

B) Explain the rationale for decentralization.

1. When deriving the optimal provision of public good (G) and private good (x), we set up the following Lagrangian:

$L = U(x^{A}, G) + λ[U^{\*}- U(x^{B},G)] + γ[\bar{R} -p.x -C(G)]$.

1. What is the idea behind including $[U^{\*}- U(x^{B},G)]$? ……….. [3]
2. What is the idea behind including $[\bar{R} -p.x -C(G)]$? ……….. [3]
3. Find the condition for optimal provision of the public good. ……….. [6]
4. Interpret in words the condition derived above. ……….. [3]