

BACHELOR OF ARTS EXAMINATION, 2019

(3rd Year, 5th Semester , Old)

ECONOMICS

PUBLIC ECONOMICS

Time : Two hours

Full Marks : 30

Answer *any three* questions :

- (i) Should the government intervene with a redistributive policy if income inequality is due to:
a. Differences in work effort?
b. Differences in ability?
- (ii) If it takes four days of labour to produce a week's food, and one day of labor to steal a week's food, what will be the economic outcome?
- (iii) Will a club be efficient if it does not exercise exclusion?
- (iv) If leisure is a normal good, lump sum transfers to individuals will lower their choice of hours worked. True/ False? 4X2.5=10
2. a. When does equality of sacrifice imply progressivity of taxation? (6)
- b. A perfectly competitive market exists for cereals. The inverse demand is $P = 200 - Q$ where P is the price of cereal and Q is the total quantity of cereal. The private total cost for the unregulated market is $= 50 + 80Q + 0.5Q^2$. The production of cereal creates an externality where the total external cost is $E = 0.5Q^2$.
- Solve for the unregulated competitive equilibrium of wheat and the socially optimal level of wheat. (2)
- Derive the Pigouvian tax (per unit of output of wheat) that results in the social optimum. (2)
3. a. In a life cycle model discuss the effect of tax on interest income on savings. (5)
- b. If marginal utility of leisure is constant and marginal utility of income is decreasing then what is the impact of proportional income tax on work effort? (5)
4. a. Can any comments be offered on whether majority voting typically leads too much or too little public good? (3)
- b. It is not only the number of members that matters for congestion but how frequently the facilities of clubs are used. Determine the efficient club membership if there is no congestion. (7)
5. a. What is dead weight loss of tax? (4)
- b. Define marginal revenue benefit (MRB). How the concept of MRB can be used to check whether a marginal tax reform moves the tax system closer to optimality? (6)