M.A. 2nd Year Fourth Semester Examination 2018

Subject: Economics

Paper: Public Economics-II

Time: 2 Hours   **Full Marks 30**

Group A

(answer any two)

1. a. What is "Yitzhaki Puzzle"?

   b. Using the concepts of income effect and substitution effect on income tax evasion that arises due to change in the tax rate, explain occurrence of the "Puzzle".

   $$2 + 4 = 6$$

2. An experiment is conducted in three different countries. Participants are told their income levels (in units of local currency), the tax rate, the probability of detection, and the fine structure. These parameters are the same for all participants. It is found that the amount of income not declared is, on average, different among the countries. Discuss the possible explanations for this finding.

   $$6$$

3. A revenue collecting authority (RCA) announces that it will only audit income declarations below a critical level $\bar{X}$. If you had an income in excess of $\bar{X}$, what level of income would you announce? Once declarations are made, will the revenue service act according to its announced auditing plans? If the RCA does not pre-commit to an auditing plan, what would be its optimum audit strategy? Explain your answer (mathematical derivation not required).

   $$2 + 2 + 2 = 6$$

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Group B

(answer any two)

4. a. Why do we need a well-functioning democracy for decentralization to work?

    b. Does democracy lead to excessive decentralization in a federation? Explain your answer.

$$3 + 3 = 6$$

5. a. Explain why source-based taxation of capital income is likely to induce under-taxation of capital in a federation?

    b. Discuss some policies that can be adopted in the federation towards prevention of the 'Race-to-the -bottom' tax competition.

$$2 + 4 = 6$$

6. Show through a suitable theoretical model that political reservation provided to a backward community at the local government level improves delivery of a local public good towards the backward community. Does the amount of spillover associated with the public good have any impact on your result? Explain your answer.

$$4 + 2 = 6$$

Group C

(answer any one)

7. Explain through a suitable model the way transport cost interacts with economies of scale in production in creation of cities.

6

8. Use an urban spatial model to explain the following empirical regularities:

    a. The residential price per square foot falls moving away from the city center.

    b. The size of the dwellings increases towards the fringe of a city.

    c. The height of the buildings increases towards the center of the city.

$$2 + 1 + 3 = 6$$