

M.A. 2nd Year Third Semester Examination 2017
Subject: Economics
Paper: Public Economics

Time: 2. Hours

Full Marks 30

Answer any five questions:

1. Using a suitable example show that lump sum taxes used for redistribution of income is never incentive compatible.

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2. 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

3. a. What is “salience” in taxation?

- b. Does presence of “salience” in taxation have any effect on calculation of excess burden of a commodity tax? Explain.

2 + 4 = 6

4. a. In a two commodity (X and Y) and two factors (labor and capital) general equilibrium model explain intuitively the role played by relative factor intensity of the products in deriving the incidence of imposition of a tax on use of capital in sector X.

- b. What would happen in presence of factor intensity reversal?

4 + 2 = 6

5. In an economy where income tax and transfer mechanisms can successfully take care of distributional problems, what should be the optimum design of commodity taxes? Explain your answer.

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6. a. Is value added tax (VAT) part of an efficient system of commodity taxes?
b. Compare a VAT system vis-à-vis a retail sale tax (RST) system for collection of indirect taxes.
c. Are exemptions good for a VAT system? Justify your answer.

2 + 2 + 2 = 6

7. Discuss the properties of an optimum income tax function. Would it necessarily be progressive? 6