

MASTER OF ARTS EXAMINATION, 2024

(2nd Year, 1st Semester)

ECONOMICS

PAPER : ECO 308

(Public Economics I)

Time : 2 Hours

Full Marks : 30

Answer **any three** questions. 10×3=30

1. (a) In the absence of taxation a consumer has the budget constraint $p_1 x_1 + p_2 x_2 - wI = 0$. Show that an ad valorem tax levied at rate t on both commodities and on labour raises no revenue. Explain this fact.
(b) “If all commodities are taxed at the same rate, the distortion in prices is minimized”. Explain why this statement does not act as a guide for setting commodity taxes. [5+5]
2. Suppose there are two perfectly competitive industries which produce two goods X and Y using two factors capital and labour which are fixed in supply. Also assume that production takes place under conditions of constant returns to scale. Discuss incidence of taxation in this general equilibrium framework. [10]

(2)

3. (a) Consider three consumers ($i = 1, 2, 3$) who care about their consumption of a private good and their consumption of a public good. Their utility functions are respectively $u_1 = x_1 G$, $u_2 = x_2 G$ and $u_3 = x_3 G$, where x_i is consumer's consumption of private good and G is the amount of public good jointly consumed by all of them. The unit cost of private good is Re. 1 and unit cost of public good is Rs.10. Individual wealth levels are $w_1 = 30$, $w_2 = 50$ and $w_3 = 20$. What is the efficient amount of public good for them to consume?
(b) If a public good is provided by voluntary contributions, too little will be supplied relative to the efficient level. True/False? Explain. [7+3]
4. Education is viewed as a good with positive externalities. Explain how education might provide positive externalities. Do you think Government intervention is required to induce market for education to operate more efficiently? [4+6]

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