SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2023
(Regular/Improvement/Supplementary)

ECONOMICS
FECO2C07- PUBLIC FINANCE: THEORY AND PRACTICE

Time: 3 Hours   **Maximum Weightage: 30**

Part A: Multiple choice questions. Answer *all* questions. Each carries $^1/_5$ weightage.

1. Goods which are non-rivalrous but excludable are referred to as:
   a) Public goods   b) Merit goods   c) Club goods   d) Private goods

2. Which of the following statements is incorrect?
   a) Public Goods are non-exclusive.
   b) Public goods are indivisible and jointly consumed.
   c) Public goods are rivalrous.
   d) Public goods face the free rider problem.

3. A cost or benefit of an economic activity experienced by an unrelated third party is referred to as:
   a) Marginal Social Cost   b) Externalities
   c) Market failure   d) Negative externalities

4. Select the incorrect statement.
   a) The impact of a tax refers to the initial burden whereas incidence is the ultimate burden of the taxation.
   b) The impact of the tax is felt at the time of settlement of a tax whereas the incident is felt at the time of imposition of a tax.
   c) The impact of a tax can easily be shifted whereas the incidence of a tax cannot be shifted.
   d) The impact of a tax is felt by the taxpayer from whom the tax is collected and the incidence of tax is felt by the person who actually bears the burden of a tax.

5. Read the following statements and select the correct option given below.

   1) The balanced budget multiplier is a change in aggregate demand brought about by a change in government expenditure, which is exactly matched by a change in revenues received from taxation and other sources.
   2) The value of a balanced budget multiplier is exactly equal to one.

   a) Only statement 1 is correct.
   b) Both are correct.
   c) Both are wrong.
   d) Statement 1 is correct whereas statement 2 is incorrect.

6. A budgeting process which requires each manager to justify his entire budget request in detail from scratch is known as:
   a) Balanced budgeting
   b) Performance Budgeting
   c) Zero base budgeting
   d) Programme Budgeting

7. A tax levied on each unit of a polluter's output in an amount just equal to the marginal damage it inflicts at the efficient level of output is known as:
   a) Pollution Tax
   b) Regressive Tax
   c) Marginal Damage Tax
   d) Pigouvian Tax

8. Vertical balance Indicates:
   a) the balance between centre and state.
   b) the balance between states.
   c) regional balance.
   d) none of these.

9. Models that study only one market and ignore possible spillover effects in other markets are:
   a) General equilibrium models
   b) Partial Equilibrium Models
   c) Microeconomic models
   d) Macroeconomic models

10. Which of the following assumptions is not Tiebout's assumption?
    a) Government activities generate no externalities.
    b) Individuals are completely mobile.
    c) People have perfect information with respect to each community's public services and taxes.
    d) People are irrational.

11. Consider the following statements regarding the Median Voter and select the correct option given below.
    1) The median voter is the voter whose preferences lie in the middle of the set of all voters' preferences;
    2) The outcome of majority voting reflects the preferences of the median voter.

    a) Only Statement 1 is correct.
    b) Only Statement 2 is correct.
    c) Both the statements are correct.
    d) Statement 1 is incorrect and 2 is correct.

12. The share of states in the central taxes recommended by the Fifteenth Finance Commission is:
    a) 41%   b) 42%   c) 45%   d) 40%

13. Select the incorrect statement.
    a) Goods and Service Tax (GST) is a successor to VAT.
    b) GST is a comprehensive, multistage and destination-based tax
    c) GST is collected from the point of origin and not from the point of consumption.
    d) Petroleum products, alcoholic drinks, and electricity are not taxed under GST.

14. All taxes come under:
    a) Capital receipt
    b) Public debt
    c) Revenue receipt
    d) Public expenditure

15. Government taxing and spending policies are called:
    a) Monetary Policy
    b) Fiscal Policy
    c) Commercial Policy
    d) Finance Policy

(15 × ¹/₅ = 3 weightage)

Part B: Very short answer questions. Answer any *five* questions. Each carries 1 weightage.

16. Critically examine Tiebout hypothesis.

17. Explain merit good.

18. Discuss the theory of optimal taxation.

19. Explain the working of a Balanced Budget Multiplier.

20. What are the different advantages of Zero-Based Budgeting?

21. Describe the FRBM Act.

22. What are the different sources of revenue for local government in Kerala.

23. How does the Pure theory address the problem of supply of public goods?

(5 × 1 = 5 weightage)

Part C: Short answer questions. Answer any *seven* questions. Each carries 2 weightage.

24. Is Education a Public Good? Justify Government intervention in Education.

25. Differentiate between Positive and Negative externalities. How do the externalities distort market efficiency?

26. Write a note on Partial and General equilibrium analysis of taxation.

27. Differentiate between impact and incidence of taxation. Briefly explain different theories of incidence and shifting of taxation.

28. Critically examine the median voter theorem.

29. Explain the various sources of revenue for the union government in India.

30. Analyse the trend of public debt in India.

31. Explain the problems of centre-state financial relations in India.

32. Why does public expenditure increase in India?

(P.T.O.)

33. Discuss the issue of sustainability of debt.

(7 × 2 = 14 weightage)

Part D: Essay questions. Answer any *two* questions. Each carries 4 weightage.

34. Discuss the distributional considerations in public finance and explain the various methods by which public policy could change income distribution.

35. Is decentralized government desirable? Debate the question by suggesting the advantages and disadvantages of fiscal federalism.

36. "The choice between debt and taxes is one of the most fundamental questions in the field of public finance". Discuss the statement in the light of Debt burden and inter-generational equity.

37. Write a note on GST. Explain the merits and demerits of GST introduced in India.

(2 × 4= 8 weightage)