DOON UNIVERSITY, DEHRADUN
Final Semester Examination, 2016
School of Social Sciences
MSc. Economics Integrated (Third semester)
Course Code: SSEI-210 Public Economics I

Time Allowed: 3 Hours   *Maximum Marks: 50*

Section A (Attempt all parts of this section)   **(2*5=10 marks)**

1. Moving both factors into one industry raises the production whiles both factors moving out reduces the production level. In your opinion what decision should be taken to keep the production constant?
2. What could be the probable reasons when an economy might be producing a combination that lies inside the production possibility frontier?
3. Suppose that a box of butter costs $20 and that of cheese costs $8, and a person wants to exchange a box of butter by compensating with cheese, what would be the exact compensation for the financial loss that could occur? How have you calculated? What is the phenomenon known as?
4. With the help of diagram, explain the situation of multiple equilibria. Also suggest how does coordination failure relates to the competitive market?
5. With the help of diagram show how does the imposition of tax change the producer and the consumer surplus for a single good market?

Section B   Attempt _any two_ questions   **(4*5= 20 Marks)**

1. How far do you agree that a private optimal decision leads to a socially optimal outcome? Support your answer with the help of an example
2. Explain the two situations given below with regard to equilibrium price of the permit giving reasons:
   a) When ŭ is large_____
   b) When ŭ is sufficiently small_____
   (Note: ŭ is the restricted amount of permitted pollutant level)
3. If the utility function is $U_J = (a_J)^{3/5} (b_J)^{2/5}$
   $$U_L = (a_L)^{2/3} (b_L)^{1/3}$$
   Find out the list of all pareto optimal allocations.
4. When the government provided subsidy for the sale of a good, the buyer's price does not coincide with the seller's price. Do you agree with the statement? Explain with the help of diagram.
5. Coase suggested that in the presence of assignment property rights, negotiation leads to an efficient outcome. Can there be any situation when it fails to? When and why? Support your answer with justification.

1. Considering an arbitrary example of an industrial unit, examine the role of negotiated settlements between the industry and the neighbors. What would be the optimum level of output?

2. What do you understand by pareto optimality? How do we find out whether a decision taken is pareto optimal or not in the production economy?

   Following the assumptions of competitive equilibrium, suggest how to attain market clearing model in the production economy.

3. Imagine a situation, where there are two goods present in the market. The demand curve of one good changes its nature with the change in the price of the other good. With the help of the diagram(s), explain the following situations and how the welfare cost of intervention occurs independently in both of the case:

   a) When D_x increases due to increase in the P_y

   b) When D_x decreases due to increase in P_y

   (Note: We are assuming the rise in price is due to imposition of taxes)