

14-12-2015

DOON UNIVERSITY, DEHRADUN

Final Examination, 2015

School of Social Sciences

Msc. Economics Integrated (Third Semester)

Course Code: SSEI-210 Public Economics I

Time Allowed: 3 Hours

Maximum Marks: 50

Note: attempt all questions from sections A & section B & any two questions from section C

Good luck ☺

Section A (Attempt all questions)

(10 marks)

- 1)  $pMP_L^a = w$ ; What does this condition explain about the firm's behaviour? Explain with the help of a diagram.
- 2) What do you understand by dominant strategy? Explain with an example.
- 3) What are Pigouvian taxes?
- 4) When MAC of a firm is more than price of a permit, a firm will \_\_\_\_\_.
- 5) Is it possible to have a negative welfare cost? When? What does it imply?

Section B (Attempt all questions.)

(4\*5=20 marks)

- 1) At an unregulated level of emission, what would be the emission produced by the Firms?  
Polluter 1 If  $MAC (Firm 1) = 250 - E_1$   
Polluter 2 If  $MAC (Firm 2) = 180 - E_2$   
If government imposes a tax of 70\$ each what is the impact on their emission? To reduce the emission what could government do?  
If instead of tax, they issue a permit with total emission of both firms equal to 200 units, what would be the equilibrium price of permit?
- 2) In the case of related goods, the calculation of welfare cost becomes more difficult than any single good. If the government raises the tax on any particular good, it will have an impact on the demand of the either good as well. Demonstrate that how it changes the demand curve of the alternative good & the welfare cost.
- 3) If the government encourages the production & the consumption of any commodity, what policy would it like to frame? Also what would be the effect on the consumer surplus & producer surplus?  
Explain in details with the help of a diagram
- 4) In spite of countless efforts, there is still possibility that the negotiation does not lead to an efficient outcome. What could be the probable reasons for the same? In such a case, what would be the consequences? Will the Marginal Damage to the society keep on increasing?  
OR  
How the society does resolves the problem of negative externality, if negotiation does not lead to an efficient outcome. Which according to you is the cost minimising method of controlling marginal damage?

Section C Answer any two questions.

(2\*10=20 marks)

1. Who pays to whom, is largely a matter of property rights. In this context, explain what are property rights? What is 'appropriate compensation'? Considering the two situations, explain how would the negotiation differ if :  
A) The property rights are with Firm  
B) The property rights are with Neighbourer's. ( Use diagrams as far as possible)

2. Consider a situation where there are two firms, they have their own independent decisions to take regarding production. From the following matrix answer the following questions:-

Firm 1	Firm 2	
	Not produce	Produce
Not Produce	0,0	0,-2
Produce	-2,0	10, 8

From the above matrix, find out which is the

- a) Dominant strategy
- b) Nash Equilibrium
- c) What are pay offs?

If the coordination fails, what would be the outcome of both firms?

OR

Using redistribution policy, government assumes to create social welfare & decrease economic efficiency loss. How far do you agree with the statement?

3. Pareto Optimality is obtained under production economy when it passes through the three tests. In this context, explain what are the basic problems of an economy for which the allocative decisions are to make? If any decision does passes the exchange efficiency but does not passes the production efficiency, will it be tested for match efficiency?

( Use diagrams as far as possible)

(Mention the allocations in the diagram and then explain each of them.)