

**DOON UNIVERSITY, DEHRADUN**  
**Mid- Semester Examination, 2017**  
**School of Social Sciences**  
**Msc.Economics Integrated (Fourth semester)**  
**Course Code: SSEI-221 Public Economics II**

*Time Allowed: 2 Hours*

*Maximum Marks: 30*

*Note: Attempt As per instructions:*

**Section A (Attempt all parts of this section)**

**(1\*6=6 marks)**

1. Marginal cost of a public good is \_\_\_\_\_. Justify your answer.
2. According to laissez faire, the role of State is \_\_\_\_\_.
3. By paying taxes, it leads to an equivalent \_\_\_\_\_ from welfare of the society and thus is subject to \_\_\_\_\_ for the society.
4. Tax is distinguished from special assessment as \_\_\_\_\_.
5. Categorize the nature of following receipts:
  - a) Stamp duty paid on purchase of house
  - b) Fines imposed by courts
6. In case of Equal absolute sacrifice, what happens to the MU between different taxpayers?

**Section B (Attempt any three questions)**

**(3\*3= 9marks)**

1. Define:
  - a) Optimal taxation (Ideal taxes v/s Optimal taxes)
  - b) Taxable Capacity (Absolute v/s Relative)
2. "Ability to pay theory" is a 'theory of taxation' in real sense of the term. Discuss.
3. According to Musgrave and Musgrave, what are the responsibilities of the State for which government role is necessary?
4. Laffer is credited with explaining and elaborating the two-headed effect of  $\Delta CR$  and corresponding  $\Delta T$ . Highlight the remarks made by him. (Support your answer with diagram)

**Section C (Attempt any two questions)**

**(2\* 7.5=15 marks)**

1. The second set of theory is based on unrealistic assumptions of quantifying the benefits and developing a semi commercial relationship between State and taxpayers. Describe the Lindahl's solution to the problem.
2. Is it possible to determine the size of budget? Critically examine to what extent the government should extend its services to maximize the social advantage?
3. Answer the following:
  - a) If other things remain equal, if an increase in excise duty on good X from Rs. 15 to Rs. 20 per unit results in an increase in the receipts from Rs. 200 crores to Rs. 250 crores, what would be the elasticity of excise duty on good X?

- b) In the above question, if excise duty remains constant, but there is an increase in the public receipts, what could be the probable reason? Explain with the help of an example.
- c) Mr. X and Mr. Y are earning Rs. 80,000 and Rs. 18,000 respectively. Both contribute Rs 8,000 and Rs. 1800 as share of taxes to the government. What would be your remarks on their contribution towards welfare? (Explain in the context of Cannon)
- d) In the financial year 2015-16, Total revenue generated was Rs. 2.98 Cr. whereas, Public expenditure incurred during the same year was Rs. 3.00 Cr. Is it violating any cannon of taxation?
- e) What could be the probable source(s) of expenditure in above part (d) of the question?