Name: **Enrolment No:**	

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, May 2022

Course: BA Eco (Hons.) **Semester: IV**
Program: Public Economics I **Time: 03 hrs.**
Course Code: ECON 2018 **Max. Marks: 100**

Instructions: Attempt all the questions.

SECTION A
10Qx2M=20Marks

S. No.		**Marks**	**CO**
Q 1	Pareto superior move is a market exchange move that makes a. the seller better off and buyer worse off b. the seller worse off and buyer better off c. both the seller and buyer better off d. both the seller and buyer better off but the society worse off.	**2**	**CO1**
Q 2	The 'veil of ignorance' approach is adopted by a. Ex-ante assessment of a public interest b. Ex-post assessment of a public interest c. Social welfare maximization d. Pareto optimality	**2**	**CO1**
Q 3	The Median voting result is the same as a. Majority voting b. Plurality voting c. Point voting d. Multi-peaked choice	**2**	**CO1**
Q 4	A market failure exists when a) the price established in the market equals the marginal cost of production b) resources are optimally allocated c) the price established in the market does not equal the marginal social benefit and marginal social cost of producing the good d) competitive markets' clearing price equals both the marginal social cost and marginal social benefits	**2**	**CO1**

Q 5	A public good a. is available for consumption by an individual at any time b. is one for which user fees are charged for the consumption of these goods c. involves no externalities for public or private consumption d. is produced in optimal quantities when the marginal cost of producing that good equals the marginal social benefit from the consumption of that good.	**2**	**CO1**
Q 6	Which of the following is a characteristic of public good? a. Non-rival-ness b. Non-excludability c. Non-availability d. Non-rejectability	**2**	**CO1**
Q 7	When indifference curves are smooth and convex, if two indifference curves are tangent at a point in an edgeworth box, then that point a. can't be competitive equilibrium b. is a pareto optimal allocation c. represents the competitive equilibrium d. cannot be on contract curve	**2**	**CO1**
Q 8	Who has contributed to theory of The law of expanding state activity a. Adolph Wagner b. R.A. Musgrave c. P.A. Samuelson d. J. Buchanan	**2**	**CO3**
Q 9	A merit good: a. Is a public good b. Is underprovided in free market c. Is overprovided in free market d. Involves negative externality	**2**	**CO3**
Q 10	In Coase Theorem: a. Externality problems are always solved b. Imposition of tax does not cause market failure	**2**	**CO3**

	c. Externality problems are solved if property rights are well-defined and negotiation cost is zero d. Bargaining power of the individuals does not depend on property rights		
SECTION B **4Qx5M= 20 Marks**			
Q 11	What is a public good? How can one determine the efficient level of provision of public goods?	**5**	**CO2**
Q 12	What do you mean by externality? Explain the different methods to correct negative externality in the economy.	**5**	**CO2**
Q 13	"High income earners should pay a high rate of tax because their labour supply is inelastic and the revenue raised can be used to assist those on low incomes". Distinguish between the positive and normative components of this statement.	**5**	**CO2**
Q 14	Which of the following are public goods? Explain why? a. Cable television programs. b. Radio programs. c. Waste collection services. d. Public schools. e. Road	**5**	**CO2**
SECTION-C **3Qx10M=30 Marks**			
Q 15	Respond to each of the following statements by labeling the statement "true," "false," or "uncertain." Then justify your claim. Answers that do not provide justification will receive zero points. i. Bollywood songs video available on YouTube are public goods ii. Unless there is a pre-existing market failure, government policy interventions generally cause a reduction in social welfare. iii. Ayshman Bharat Yojana is targeted to improve the efficiency of Healthcare sector in India iv. A road is non-rival because one person's use of it does not reduce another person's us of it. v. Government should increase tax to reduce poverty in India	**10**	**CO3**

Q 16	Assume there are two consumers in the market for a public good. One has the individual demand curve D1 and one has the individual demand curve D2. Assume that provision of the public good costs ₹50 per unit. i. Draw the marginal social benefit curve for this market on the diagram above. ii. Write the equation for the marginal social benefit curve. iii. Find the efficient quantity of provision. You must show your work to get credit. You can get partial credit for illustrating the efficient quantity on the diagram. **Note that the answer will not necessarily be an integer.**	**10**	**CO3**
Q 17	There are three consumers of public goods. The demand for consumer are as follows: a) P1 = 50 – G b) P2 = 110 – G c) P3 = 150 – G Where G measures the number of units of the public good and pi the price in dollars. The marginal cost of the public good is $190. a) What is the optimal level of provision of the public good? Illustrate your answer with a graph. b) Explain why the public good may not be supplied at all because of the free rider problem c) If the public good is not supplied at all, what is the size of the Deadweight loess arising from this market failure?	**10**	**CO4**
Q 18	Are the following statements true or false? Explain why in each case. a. If one consumer gains from a trade, the other consumer involved in trade must lose. b. The gains from trade are based on comparative advantage, not absolute advantage. c. If the supply of public good is determined by majority vote, then the outcome must pareto-efficient. d. The source of the free-rider problem is the absence of rivalry in the consumption of public goods. e. The competitive equilibrium is the only allocation where the gains from trade are exhausted.	**15**	**CO3**
Q 19	Let a consumer have preferences described by the utility function $U = \log(x_1) + \log(x_2)$ and an endowment of 2 units of good 1 and 2 units of good 2.	**15**	**CO4**

	A. Construct and sketch the consumer's budget constraint. Show what happens when the price of good 1 increases. B. By maximizing utility, determine the consumer's demands. C. What effect does increasing the endowment of good 1 have on the demand for good 2? Explain your finding.		