

Name:
Enrolment No:



UNIVERSITY OF PETROLEUM & ENERGY STUDIES
End Semester Examination – December, 2022

Program: BA PPA
Subject/Course: Economics of Public Policy
Course Code: BAPP 2001

Semester: III
Max. Marks: 100
Duration: 3 Hours

Section-A

- 1. Each question will carry 2 marks**
- 2. Select the correct answer(s)**

S.No.	Question	Marks	COs
1	The study of public finance helps us to understand A. How the invisible hand works B. How the finances are managed within a family C. How the companies manage their accounts D. How governments manage their investments	2	CO 1
2	Which of the following statements is correct? A. Public Finance is the same as Public Economics B. Public Finance is completely different from Public Economics C. Public Finance encompasses Public Economics D. Public Economics is wider version of Public Finance a.	2	CO 1
3	If the elasticity of demand for a good is greater than elasticity of supply for the good, then: A. The burden of tax on buyers would be higher than that on sellers B. The burden of tax on buyers would be lower than that on sellers C. Incidence cannot be shifted D. The burden of tax on buyers would be equal to that on sellers	2	CO 1
4	What is the current tax share of direct taxes in total tax revenue of the Central Government? A. Around 17% B. Around 27% C. Around 35% D. Around 30%	2	CO 1
5	Vertical fiscal imbalance cannot be corrected by this method A. Tax power sharing B. Tax base sharing C. Tax revenue sharing D. Tax expenditure sharing	2	CO 1

6	The purpose of providing grants-in-aid to States under Article 275 of Indian Constitution is to A. help reduce the post-devolution revenue deficit B. provide relief from natural disasters C. finance capital projects D. increase capacity building	2	CO 1
7.	Government intervention is usually measured in terms of A. Share of public expenditure in GDP B. Ratio of public debt to GDP C. Ratio of fiscal deficit to GDP D. Number of government employees	2	CO 1
8.	Which of the following is not a characteristic of public good? A. Non-rival-ness B. Non-excludability C. Non-availability D. Non-rejectability	2	CO 1
9.	The whole class of goods that will be under-produced or not produced at all in a completely unregulated market economy are referred to as A. free goods. B. Pareto goods. C. private goods. D. public goods	2	CO 1
10.	The external benefits of using cars are _____ and the external costs are also _____ A. high, high B. high, low C. low, low D. low, high.		CO 1
Section-B			
Each question will carry 5 marks			
11.	Explain what a non-excludable and non-rival good is? Give an example of: a) excludable and rival good b) nonexcludable and rival good c) excludable and nonrival good d) non excludable and nonrival good	5	CO 2
12.	Give four examples of market interactions with externalities: two positive and two negative ones. b) In each of your examples is the outcome Pareto efficient or not? Why or why not? (you can answer this question assuming that market is not regulated)	5	CO 2

13.	<p>Explain whether each of the following government activities are motivated by a concern about equality or a concern about efficiency. In the case of efficiency, discuss the type of market failure involved.</p> <ul style="list-style-type: none"> a) Regulating cable TV prices. b) Providing some poor people with vouchers that can be used to buy food. c) Prohibiting smoking in public places d) Breaking up standard oil (which once owned 90% of all oil refineries) into several smaller companies. e) Imposing higher personal income tax rates on people with higher incomes. f) f. Instituting laws against driving while intoxicated 	5	CO 2
14.	Draw a supply-and-demand diagram with a tax on the sale of a good. Show the deadweight loss. Show the tax revenue.	5	CO 3
15,	What happens to the deadweight loss and tax revenue when a tax is increased?	5	CO 3
Section-C			
Each question carries 10 Marks.			
16	<p>Consider public policy aimed at smoking.</p> <ul style="list-style-type: none"> a) Studies indicate that the price elasticity of demand for cigarettes is about 0.4. If a pack of cigarettes currently costs \$5 and the government wants to reduce smoking by 20 percent, by how much should it increase the price? b) If the government permanently increases the price of cigarettes, will the policy have a larger effect on smoking one year from now or 5 years from now? c) Studies also find that teenagers have a higher price elasticity of demand than adults. Why might this be true? 	10	CO 3
17	<p>Suppose you are a typical person in the U.S. economy. You pay 4 percent of your income in a state income tax and 15.3 percent of your labor earnings in federal payroll taxes (employer and employee shares combined). You also pay federal income taxes as in Table 2</p> <p>How much tax of each type do you pay if you earn \$30,000 a year? Taking all taxes into account, what are your average and marginal tax rates? What happens to your tax bill and to your average and marginal tax rates if your income rises to \$60,000</p>	10	CO4
18	Explain various reasons of market failure. Do you think market failure can affect the redistribution of resources? If yes, Explain	10	CO4
Section-D			
Each question carries 15 Marks.			
19	Evaluate any one public policy recently taken by the government and the implications for the economy.	15	CO4

	(Hint: You can choose any one popular scheme of the central government to write the essay)		
20	<p>Consider a small exchange economy with two consumers, A and B, and two commodities, x and y Consumer A and B have the preferences</p> $u_A(x_A, y_A) = x_A y_A \text{ and } u_B(x_B, y_B) = x_B y_B$ <p>The initial endowments of the goods are that A has 12 units of x and 2 units y of while B has 8 units of x and 18 units of y</p> <ol style="list-style-type: none"> Draw an Edgeworth box for this economy. Be sure to label everything clearly (including the endowment point). Draw in the efficient lens that corresponds to the initial endowment. Explain this lens. For an allocation in this economy to be Pareto efficient, it must maximize the utility of consumer A given the utility of consumer B. Is the initial endowment Pareto efficient? Why or why not? Now assume A gets to choose a new allocation to maximize utility, subject to the constraint that B's utility be no lower than at the endowment point. Illustrate this situation on a separate graph. Solve formally for the Pareto efficient allocations of x and y under the assumptions in part (d). 	15	CO4