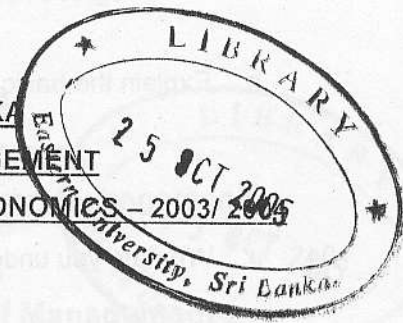EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

THIRD YEAR FIRST SEMESTER EXAMINATION IN ECONOMICS – 2003/ 2005

(NOVEMBER/ DECEMBER 2004)

ECN 3044 PUBLIC FINANCE

Answer all Questions   Time : 03 Hours

01.   a.   Define Public Finance.

(04 marks)

b.   What are the main constituents of Public Finance? Explain.

(04marks)

c.   Identify the problems related to the constituents mentioned above in the public finance of Sri Lanka.

(04 marks)

d.   In what ways the Fiscal Management Responsibilities Act (FMRA) is likely to improve discipline and credibility of government's fiscal activities in Sri Lanka.

(08 marks)

(Total 20 marks)

02.   a.   Define the factors that bring about the market failure.

(04 marks)

b.   "Market failure provides an allocative role for government". Explain with examples.

(08 marks)

c.   "Non excludability and non rivalness are the main characteristics of a pure public good". Explain.

(04 marks)

d.   Distinguish between merit and demerit goods.

(04 marks)

(Total 20 marks)

03.   a.   Differentiate the following concepts related to the Taxation.

i.   Horizontal equity and vertical equity.

(04 marks)

ii.   Equal absolute sacrifice and equal proportional sacrifice.

(08 marks)

      iii.   Progressive taxation and proportional taxation.

                                                              (04 marks)

  b.   Explain the basic features of VAT, introduced in Sri Lanka since 2002.

                                                              (04 marks)

                                                    (Total 20 marks)

04. a.   What do you understand from the collective decision-making?

                                                              (04 marks)

    b.   Explain Arrow's "Conditions of correspondence" which any constitutional rule must satisfy in making collective decision.

                                                             (08marks)

    c.   Show that how the simple majority voting fails the Arrow test.

                                                            (08 marks)

                                                     (Total 20 marks)

05. a.   Define public expenditure.   Differentiate capital expenditure from current expenditure.

                                                              (04 marks)

    b.   Give the Economic classification of the current expenditure of the Budget of Sri Lankan government.

                                                             (04 marks)

    c.   "Wagner's law was not only applicable to Germany but to various governments which differed widely from each other." Explain with examples.

                                                            (08 marks)

    d.   How does Displacement Effect Differ from Inspection Effect?

                                                            (04 marks)

                                                     (Total 20 marks)