

**Public Economics (BAECO303)**

<b>S. No.</b>	<b>Questions</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>Answer</b>
1	Economic functions of the government are all the following EXCEPT to _____.	Control the price level of public goods.	Create a stable economic environment.	Increase the level of education.	Distribute income and wealth.	C
2	Which of the following does NOT determine the nature of Public Economics?	Public economics studies the government and how its policies affect the economy.	Public economics is the study of government policy through the lens of economic efficiency and equity.	Public economics builds on the theory of welfare economics and is ultimately used as a tool to improve social	Public Economics studies the behaviour of private firms and is called economics of Private Sector.	D
3	Which of the following describes the situation where all taxes and other revenues are less than expenditures during a given period?	Budget Deficit.	Budget Surplus.	Balanced Budget.	Public Debt.	A
4	The Fundamental Theorem of Welfare Economics:	Shows that the allocation of resources generated by a complete system of perfectly competitive markets results in all consumers attaining the same utility level.	Refers to the biblical observation that "the poor ye shall always have with you."	Implies that no intervention in the workings of markets can be justified on efficiency grounds.	Holds that the allocation of resources generated by a complete system of perfectly competitive markets is Pareto efficient.	D
5	If the economy is in an inflationary period, what action would Fiscal Policy most likely take?	Decrease the discount rate.	Increase taxes.	Decrease taxes.	Increase spending.	B
6	Public goods are difficult for a private market to provide due to:	The free-rider problem.	The Tragedy of the Commons.	The public goods problem.	The rivalness problem.	A
7	Merit goods are those which, when consumed, generate positive external benefits. This is likely to mean that, in a free market economy, the good will be:	Over-consumed.	Over-supplied.	Subject to VAT.	Under-supplied.	D

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8	The optimum level of economic activity and associated pollution from society's point of view occurs where:	Marginal private benefit = Marginal private cost.	Marginal social benefit < Marginal social cost.	Marginal social benefit = Marginal social cost.	Marginal social benefit > Marginal social cost.	C
9	If pollution by one firm results in higher production costs for another firm, this would be classified as a:	Negative production externality.	Negative consumption externality.	Marginal private cost of production.	Free Good.	A
10	In the case of a negative externality, the social marginal cost will:	Be equal to private marginal cost.	Exceed the private marginal cost	Fall short of private marginal cost.	Bear no significant relation to private marginal cost.	B
11	Printing of new currency notes and RBI borrowings by government is called:	Government Loans.	Government Securities.	Government Bonds.	Deficit Financing.	D
12	Which of the following is not a characteristic of a tax?	It is a compulsory payment.	Every tax involves a sacrifice by tax payer.	There is a quid-pro-quo between the tax payer and the Government.	Refusal to pay tax is a punishable offence.	C
13	Which of the following is not the broad component of Property Rights?	The right to use the good.	The right not to transfer the good to others.	The right to earn income from the good.	The right to enforce property rights.	B
14	When property rights are settled by means of bargaining or negotiating terms, what has been applied?	A good deal.	A bad deal.	Coase theorem.	Coase theorem.	D
15	Following are some of examples of Transfer Expenditure EXCEPT:	Interest payments on public debt.	Social infrastructure such as education, health and family welfare.	Unemployment allowances.	Subsidies.	B

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16	All other things being equal, a substantial cut in the rate of income tax in the short run is most likely to reduce:	The government budget deficit.	Spending on imports.	Unemployment.	Inflation.	C
17	Which of the following is NOT the effect of taxation on production?	Effects on the distribution of income and wealth.	Effects on the ability to work, save and invest.	Effects on the will to work, save and invest.	Effects on the allocation of resources.	A
18	A tax either on consumers or on producers:	Creates a loss only to consumers.	Creates a loss only to producers.	Creates a net gain for the society as a whole.	Creates a dead weight loss for society as a whole.	D
19	The direct violation of Tax law is called:	Tax Avoidance.	Tax Rebate.	Tax Evasion.	Tax Incidence.	C
20	In the case of relatively elastic demand, the money burden of tax is on:	Entirely on seller.	More on seller.	Entirely on buyer.	More on buyer.	B
21	With increase in urbanisation and industrialisation, the role of Government started:	Increasing.	Declining.	Stagnant.	Unstable.	A
22	Which of the following is NOT the subject matter of Public Finance?	Public Revenue & Expenditure.	Business administration.	Public Debt.	Fiscal Policy.	B
23	The most important aim of fiscal policy in a developing country is:	Public Revenue.	Regional balance.	Economic stability.	Economic development.	D
24	.If a good is a public good, then:	People who do not pay can be excluded from consuming the good.	Consumption is regulated.	People who do not pay cannot be excluded from consuming the good.	Consumption is deregulated.	C
25	A market failure can best be defined as a situation where:	Markets enable buyers to gain utility.	Markets fail to allocate resources efficiently.	Markets fail to enable sellers to make profits.	Markets encourage people to take risks.	B
26	The “Tragedy of the Commons” is:	Discovery of corruption among members of the Society.	Existence of Market Failure.	Exhaustion of resources that are collectively owned.	Outrageous crime in a Boston public park.	C

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27	A tax that takes away a higher proportion of one's income as the income rises is termed as a:	Progressive Tax.	Regressive Tax.	Proportional Tax.	Indirect Tax.	A
28	Loans taken by the government for purpose of war, earthquakes for covering budget deficit are:	Productive Debts.	Unproductive Debts.	Voluntary Debts	External Debts.	B
29	The incidence of tax refers to:	The level and rate of taxation.	The growth of taxation.	The way in which tax is collected.	Who ultimately pays the tax.	D
30	In the case of direct tax, impact and incidence are on:	Same person.	Sellers.	Different person.	Producer.	A

<b>SHORT ANSWER - 05 QUESTIONS</b>	
1	What do you mean by Public Economics?
2	Discuss the characteristics of Public Goods.
3	Write a short note on Negative Externality.
4	Mention the economic effects of Taxation.
5	What do you mean by Tax Incidence?









