

THE OPEN UNIVERSITY OF SRI LANKA
 DEPARTMENT OF SOCIAL STUDIES
 BA DEGREE PROGRAMME IN SOCIAL SCIENCES - LEVEL IV
 FINAL EXAMINATION 2023/2024 (SEMESTER II)
 DSU4336 – PUBLIC FINANCE



DURATION: THREE HOURS (3 HOURS)

Date: 31.08.2024

Time: 01.30 p.m. – 04.30 p.m.

Instructions:

- There are nine (09) questions in this paper.
- Answer any five (05) questions.
- Each question carries equal marks.

1. (a) Explain the scope of public finance and its importance in modern economics. (10 marks)
- (b) Describe how do different political ideologies shape public finance policies. Provide examples from at least two different political systems. (10 marks)
2. (a) Define consumer surplus and producer surplus. (10 marks)
- (b) Explain how consumer surplus and producer surplus are used to assess market efficiency. Use diagrams to illustrate your answer. (10 marks)
3. (a) Define compensating variation and equivalent variation. (10 marks)
- (b) Discuss how these measures are used to evaluate changes in consumer welfare, particularly in response to price changes. (10 marks)
4. Discuss the implications of Pareto efficiency for resource allocation in an economy. (20 marks)

5. (a) Define public goods and explain what challenges arise in providing them. (10 marks)
- (b) Discuss how the free-rider problem leads to market failure in providing public goods. (10 marks)
6. (a) Define positive and negative externalities with examples. (10 marks)
- (b) Evaluate different policy responses to externalities, including taxes, subsidies, and regulations. Use appropriate graphs to support your answer. (10 marks)
7. Critically analyze the role of tax policy in economic development. Use recent changes in tax policies as examples to illustrate your points. (20 marks)
8. Discuss the concept of tax incidence and its implications for the distribution of the tax burden between consumers and producers. (20 marks)
9. Write short notes on **any four (04)** of the following.
- (a) Fiscal Sustainability
 - (b) Edgeworth Box and Pareto Efficiency
 - (c) Maximizing Social Welfare
 - (d) Rent – Seeking
 - (e) Effects of Subsidy (5×4 =20 marks)

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