

THE OPEN UNIVERSITY OF SRI LANKA
 DEPARTMENT OF SOCIAL STUDIES
 BA IN SOCIAL SCIENCES –2024/2025
 FINAL EXAMINATION – LEVEL 4 (SEMESTER II)
 DSU4336 – PUBLIC FINANCE



DURATION: THREE HOURS (03 HOURS) ONLY

Date: 17.08.2025

Time: 9.30 a.m. - 12.30 p.m.

Instructions:

- There are nine (09) questions in this paper.
- Answer any five (05) questions.
- Each question carries 20 marks.

1. Define public finance and discuss the four key components of public finance. (20 marks)
2. Discuss how political ideology influences the role of government in an economy.
 Use appropriate examples to support your answer. (20 marks)
3. a) Define public goods and explain their characteristics of non-rivalry and non-excludability. (10 marks)
 b) Why does the market fail to provide public goods efficiently? (10 marks)
4. a) What are externalities? Explain the difference between positive and negative externalities. (10 marks)
 b) Outline two government policies that can be used to correct externalities. (10 marks)
5. a) Define fiscal policy and distinguish between expansionary and contractionary fiscal policy. (10 marks)
 b) With reference to Sri Lanka, explain how fiscal policy can help stabilize the economy during inflation or recession. (10 marks)

6. a) What is meant by fiscal sustainability? (10 marks)
- b) Why is it important for long-term economic growth and public trust? (10 marks)
7. a) Explain the differences between direct and indirect taxes. Which one dominates in Sri Lanka, and why? (10 marks)
- b) Discuss the key challenges Sri Lanka faces in raising adequate revenue. (10 marks)
8. a) What is rent seeking in the context of public finance? (10 marks)
- b) Explain how rent-seeking behavior affects government budgeting and resource allocation. (10 marks)
9. Write short notes on **any four (04)** of the following:
- a) Free Rider Problem
 - b) Pareto Efficiency and Social Welfare
 - c) Recurrent vs. Capital Expenditure
 - d) Public Debt in Sri Lanka
 - e) Pigouvian Tax and Pollution Control

(5 x 4 = 20 marks)

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