

**UNIVERSITY OF COLOMBO, SRI LANKA  
FACULTY OF ARTS**

**Third Year Special Degree Examination in Arts (Economics) – 2018/2019  
(First Semester Final Examination)**

**ECN 3187 - Public Finance  
Time Allowed: Two (02) Hours**

**Answer Any Four (04) Questions**

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- (1) (a). "According to intellectual consensus, task of the public finance is to make *efficiency, equity, stability, and growth*". Explain this statement with reference to the different roles played by the government.  
(10 marks)
- (b). "In the Neo-liberal policy context, role of the State is confined to regulatory policies rather than involvement in economic activities". Do you agree? Explain your answer.  
(15 marks)
- (2) (a). "Ultimate objective of income redistribution policies of a government is to make fairness in a society rather than the income equality" Why? Give reasons for your answer by explaining the difference between fairness and equality.  
(13 marks)
- (b). Why income inequality in a society tends to increase sometimes. State the reasons. What are the strategies that a government has to undertake in minimizing the inequality?  
(12 marks)
- (3) (a). Public goods and services have two distinct aspects as non-excludability and non-rival in consumption. Explain these two aspects considering 'street signals' and 'television transmission service' as public goods or services.  
(13 marks)
- (b). Using a diagram of 'Buchanan's model', briefly explain his view on the provision of public goods, and the conditions that have to be fulfilled in supplying such goods.  
(12 marks)
- (4) (a). Why tax revenue is considered to be an important source of revenue of a government? Explain it taking into account its alternative sources.  
(10 marks)
- (b). "Two important and contradictory principles in taxation address equity in distributing tax burdens and tax payments". What are these principles? Briefly examine with special reference to the justifications of the principles.  
(15 marks)

- (5) (a). What are direct taxes? Why does a government use direct taxes? Examine merits and demerits of a direct tax system.  
(13 marks)

- (b). Should the wealth be a tax base? Compare and contrast taking into account the appropriateness and inappropriateness of income and expenditure tax bases.  
(12 marks)

- (6) (a). Compared to early periods, public expenditures in the 20<sup>th</sup> century has increased rapidly in many countries. What are the factors underlining this increase? Examine the impacts of current liberal policies on public expenditures.  
(10 marks)

- (b). Using the following data, calculate the B/C (benefits costs) ratio and IRR (Internal Rate of Return) for the following project and decide whether this project is suitable for implementation or not. Assume the discount rate as 12%.

No of year	Benefit (Rs. Thousand)	Cost (Rs. Thousand)
1	-	22145
2	7650	4915
3	9450	4915
4	9450	4915
5	9450	4915
6	9450	4915
7	9450	4915
8	9450	4915
9	9450	4915
10	9450	4915

(15 marks)

- (7) (a). "Budgeting is the process of creating a plan to spend your money". Based on this statement, briefly explain the purposes of budgeting. Do you think that Zero-based budgeting is the best method of achieving the desired objectives of budgeting compared to the traditional methods? Critically examine.  
(15 marks)

- (b) (i). What do you mean by a decentralized budget? Briefly explain its importance compared to Traditional budgeting system.  
(05 marks)

- (ii). What is the importance of budget as a fiscal instrument? Briefly explain.  
(05marks)

- (8) Write Short notes on any two (02) of the following  
(a). Adam Smith's and Keynesian views of growth and development  
(b). Advantages and disadvantages of globalization  
(c). Excess tax burden and tax shifting  
(d). Impacts of deficit financing of budgets  
(12.5 marks for each)

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