

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
FINAL YEAR FIRST SEMESTER EXAMINATION IN
BACHELOR OF COMMERCE/
SPECIALISATION IN BUSINESS ECONOMICS- 2018/2019
[AUGUST, 2020]
(PROPER/REPEAT)
ECN 4033 – PUBLIC SECTOR ECONOMICS

Answer all questions

Time: Three hours
Number of Pages: 03

Q1. Read the Case Study carefully given below and answer the questions based on it.

GOVERNMENT INTERVENTION

Husain, a well-known business man, has been operating a Bakery in a residential area of Nawala since 1983. Recently, he started a chemical factory plant, named Oxy Light Private Ltd. Company close to his Bakery, manufacturing ammonia gas. During its manufacturing process, unprocessed hazardous wastes discharged into the ground and into the river Kelaniya which is consumed by the residents.

Ayesha has been living in the house adjoining Husain's Bakery and Oxy Light Private Ltd. Company since last January with her five months old baby, husband and parents.

Ayesha complained that she and her family members, as well as neighbours, were disturbed every day by the smoke and the smell from the Bakery. Ayesha's baby has fallen ill with breathing difficulties and a cough as a result of the smoke coming from the Bakery. And also, she alleged that the discharge of unprocessed hazardous wastes from his newly started chemical factory had polluted the ground water and river that aggravated the already damaged environment and increased the risk of more breathing difficulties.

Husain refuses to install technology to stop the smoke and smells coming from his Bakery. He argues that he has been operating his Bakery factory for more than thirty years and that he has obtained an "**Environmental Protection License**" (EPL) from the Nawala Pradheshiya Sabha to carry on his business. Further, Husain defends that his latest company does not have sufficient scientific knowledge or financial capacity to establish a waste plant.

Questions:

Note that your answers should be supported with the relevant **“graphical illustrations”** you have studied.

- a) Brief the steps that could be taken by the Nawala Pradheshiya Sabha to correct inefficiencies caused by **“externalities”**. Give the different phases of the steps with suitable examples. (08 Marks)
 - b) What are the strategies available that would you suggest for correcting **“negative externalities”** in forbidding Husain’s certain behaviours in the form of government regulation? Explain. (12 Marks)
 - c) Assume that the government of Sri Lanka imposes an excise tax on ammonia in order to reduce the negative externalities of pollution of the ground water river. **“To what cost”** the size of the excise tax should be equal? Explain. (08 Marks)
- (Total 28 Marks)**

Q2.

- a) What do you mean by **“rivalry”** of a good? Give examples. (06 Marks)
 - b) To what extent is rivalry an important feature of a **“public”** good? Explain. (06 Marks)
 - c) Think of a public good, how will you derive the **“market demand curve”** from individual demand curves? Show your working clearly. (06 Marks)
- (Total 18 Marks)**

Q3.

- a) What is meant by **“public sector resources allocation”**? (04 Marks)
- b) **“Sometimes markets fail to make ‘socially desirable outcomes’”**. Why? (08 Marks)

- c) Why do “**individual decisions**” always not lead to socially desirable outcomes?
Give reasons. (06 Marks)

(Total 18 Marks)

Q4.

- a) When is an outcome (allocation) “**Pareto efficient**”? (05 Marks)
- b) Explain the “**three marginal conditions**” in Pareto efficiency for optimal resource allocation in an economy. (05 Marks)
- c) Why are “**monopolies**” generally harmful to the economy? Present your answer with suitable examples. (08 Marks)

(Total 18 Marks)

Q5.

- a) Identify any three “**objectives of public sector**”. (05 Marks)
- b) Will investing in “**public sector enterprises**” bring a remarkable contribution in the economic development of a country like Sri Lanka? Discuss. (05 Marks)
- c) “In a country like Sri Lanka, monetary policy alone is ineffective, ‘**fiscal policy**’ can be used an important assistant to monetary policy”. Analyse. (08 Marks)

(Total 18 Marks)