

**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**  
**THIRD YEAR/FIRST SEMESTER EXAMINATION IN MANAGEMENT AND**  
**COMMERCE 2005/06 (August 2007)**

**ECN 3053 – Public Finance**

Answer the all questions

Time: 03 hours

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1. A. (i) What do you understand by the term “Public Finance”.  
(05 marks)
- (ii) Explain the importance of Public Finance in developing countries.  
(05 marks)
- B. Briefly explain the following roles of government in an economy.  
(i) Regulatory Role  
(ii) Stabilization Role  
(10 marks)
2. (i) What is meant by “market failure”? List out the reasons for market failure.  
(05 marks)
- (ii) Differentiate Public good and Private good.  
(05 marks)
- (iii) What is meant by Pareto efficiency? Briefly explain the optimal provision of a public good under general equilibrium analysis  
(10 marks)
3. (i) What are the objectives of imposition of tax?  
(05 marks)
- (ii) List out the Adam Smith’s cannon of taxation.  
(05 marks)
- (iii) Briefly Explain the Ability to pay approach.  
(05 marks)
- (iv) What types of taxes exist in Sri Lanka at present?  
(05 marks)

4. (i) What do you understand by the term of “Public Expenditure”?  
(05 marks)
- (ii) Briefly explain the Wagner’s law of public expenditure.  
(05 marks)
- (iii) Differentiate the displacement effect and inspection effect under Peacock and Wiseman analysis  
(10 marks)
5. (i) Briefly explain the assumptions under the Arrow’s social choice analysis.  
(05 marks)
- (ii) Briefly explain the majority voting system in social choice analysis.  
(07 marks)
- (iii) Discuss the Duncan Black’s “Single –Peaked Preferences” analysis.  
(08 marks)

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