

**EASTERN UNIVERSITY, SRI LANKA**

**FACULTY OF COMMERCE AND MANAGEMENT**  
**FINAL YEAR FIRST SEMESTER EXAMINATION IN**

**BACHELOR OF COMMERCE (HONOURS) IN BUSINESS ECONOMICS - 2021/2022**  
**(FEBRUARY/MARCH, 2024)**  
**(PROPER)**

**ECN 4163 – PUBLIC SECTOR ECONOMICS**

*Answer all questions.*

*Time: Three hours.*

*If relevant, please show graphical representation.*

*No. of Pages: 03.*

**Q1.**

- 1)
    - a) Outline the dimensions of the public sector. (03 Marks)
    - b) What is the relationship between the public sector and the economy? (03 Marks)
  - 2)
    - a) Define 'Cost-Benefit Analysis'. (03 Marks)
    - b) Enumerate basic features of cost-benefit analysis. (03 Marks)
  - 3)
    - a) Explain the problem of 'Tragedy of the Commons'. (05 Marks)
    - b) Briefly discuss the ways by which it can be avoided. (03 Marks)
- (Total 20 Marks)**

**Q2.**

- 1) (04 Marks)
  - a) Differentiate between the negative consumption externality and the positive production externality. (03 Marks)
  - b) In each case, explain why the market fails. (02 Marks)
  - c) Recommend at least one possible policy action to correct the above market failure. (01 Marks)
- 2)
  - a) Characterize 'Pareto Efficient Allocation'. (03 Marks)
  - b) Using appropriate diagram, show how that the market equilibrium is Pareto efficient. (04 Marks)

3)

- a) What are the basic unique features of public goods and private goods?  
(03 Marks)
  - b) How may private provision of a public good overcome the free rider problem?  
Give three examples.  
(04 Marks)
- (Total 20 Marks)**

Q3.

1)

- a) Which determines the optimum level of public expenditure? (03 Marks)
- b) Briefly examine the effects of public expenditure on production and distribution of resources in an economy. (04 Marks)

2)

- a) Why government fails to achieve efficiency? Give reasons. (03 Marks)
- b) Highlight the solutions to the problem of government failure. (04 Marks)

- 3) Briefly point out the important reforms introduced in respect of direct taxes in the Government of Sri Lanka's Budget for 2023-2024. (06 Marks)

**(Total 20 Marks)**

Q4.

1)

- a) Define 'Dead Weight Loss' with example. (03 Marks)
- b) How does competitive market deliver the efficient quantity? (03 Marks)

2)

- a) What is the objective of the government intervention? (03 Marks)
- b) Using diagram, show how firms move from a profit maximising point of production to allocative efficiency. (04 Marks)

3)

- a) Why a democratic country by majority rule cannot promote public interest? (03 Marks)
- b) How has, as special interest group, the Buddhist monks' lobby great influence over the member of the parliament, in Sri Lanka? (04 Marks)

**(Total 20 Marks)**

Qs.

- 1)
  - a) Identify three characteristics of 'Good State Enterprise'. (03 Marks)
  - b) Do you think that state enterprises deliver public services more efficiently? (04 Marks)
- 2)
  - a) Why are merit goods under-supplied in a free market economy? (03 Marks)
  - b) Briefly comment on current external debt problem of Sri Lanka. (03 Marks)
- 3)
  - a) What is the role of deficit financing in fiscal policy? (03 Marks)
  - b) Briefly explain 'Ability-to-Pay and benefit principles of taxation'. (04 Marks)

(Total 20 Marks)