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**UNIVERSITY OF PETROLEUM
AND ENERGY STUDIES**



End Semester Examination – May, 2017

Program/course: Masters/ Energy Economics (MEE)

Subject: Public Finance

Code : MECF 722

No. of page/s: 6

Semester – II

Max. Marks : 100

Duration : 3 Hrs

Section-A

[20 Marks]

All the questions carry equal marks

1. Under the following summary of Union Budget for 2016-17, the revenue deficit and fiscal deficit should be

<i>Tax Revenue</i>	<i>1842</i>
<i>Non-tax revenue</i>	<i>697</i>
<i>Recoveries of loans and other receipts</i>	<i>180</i>
<i>PSUs disinvestments</i>	<i>132</i>
<i>Borrowings and other liabilities</i>	<i>1537</i>
<i>Revenue expenditure</i>	<i>3662</i>
<i>Capital expenditure</i>	<i>726</i>
<i>Interest payments</i>	<i>1232</i>

- (a) 1123 and 2355
 - (b) 1123 and 1537
 - (c) 1849 and 304
 - (d) 1537 and 2660
2. Which of the following deficits is the true indicator of the current fiscal position?
- (a) Revenue deficit
 - (b) Capital deficit
 - (c) Primary deficit
 - (d) None of the above
3. According to the Barro-Ricardo's Equivalence theorem, debt financed fiscal expansions have the same effects on the real economy as the tax financed fiscal expansions if
- (a) Tax payers have bequest motive, perfect foresight and no liquidity constraint
 - (b) Government budget is inter-temporarily balanced
 - (c) Nominal interest rate on public debt equals economy's growth rate
 - (d) Both (a) and (b) above

4. Debt-GDP ratio would increase unless
 (a) Primary deficit to GDP ratio is zero
 (b) Growth rate in nominal GDP equals nominal interest rate on debt
 (c) Both (a) and (b)
 (d) None of the above
5. The crowding out effect is stronger
 (a) In the Keynesian model than in the classical model
 (b) The larger the interest sensitiveness of the money demand
 (c) The smaller the interest sensitiveness of the investment demand
 (d) In an open economy than in a closed economy
6. The proposed GST bill will subsume:
 (a) Entertainment tax
 (b) Value added tax
 (c) Union excise duty
 (d) All of the above
7. Select the pair of economist, who first gave the canons of taxation and expenditure:
 (a) R.N. Bhargav and R.A. Musgrave
 (b) Adam Smith and Findlay Shirras
 (c) A.C. Pigou and David Ricardo
 (d) A.R. Prest and Ursula K. Hicks
8. Following are some of the effect of parallel economy in India:
 (a) Loss of revenue to the Government
 (b) Greater burden on honest tax-payers
 (c) Results in equitable distribution of wealth and income
 (d) Encouragement to non-essential items of conspicuous consumption
 Find the correct combination from the codes given below:
 (1) (a), (b) and (c) (2) (a), (b) and (d) (3) (b), (c) and (d) (4) (a) and (d)
9. Who suggested to Government of India to introduce expenditure tax?
 (1) N. Kaldor (2) J.R. Hicks (3) B. Hanson (4) Ursula Hicks
10. Central Government's situation is likely to be stressed because of:
 (1) Implementation of the recommendations of the Seventh Pay Commission
 (2) Larger devolution to the states arising out of recommendations of the Fourteenth Finance Commission.
 (3) Compensation the states on implementations of GST
 (4) All of the above.
11. Which tax is imposed solely by the Government of India?
 (1) Sales Tax (2) Excise Tax (3) Custom duty (4) Octroi day
12. GST in India will be characterized by which of the following features?
 Choose the correct answer from the code given below:
 (a) There will be a dual GST with Centre and the state.
 (b) It would be destination based tax as against the origin based tax.
 (c) It would apply to all goods and services excluding alcohol for human consumption.

Codes

(1) All the above are correct	(2) Only (a) is true
(3) Both (a) and (b) are true	(4) Only (b) and (c) are true

13. Which of the following pair is not correctly matched?

- (1) Similarly persons should be taxed similarly – Horizontal equity
- (2) Interest payments are deducted from fiscal deficit- Primary deficit
- (3) Goods which are divisible and principle of exclusion applies in full measure– Pure private goods
- (4) Tax on goods and services is levied according to item's value- State excise duties

14. During the year 2015-16, which one of the following was the largest item of expenditure of the central government?

(1) Major subsidies	(2) Defence expenditure
(3) Interest payment	(4) Capital expenditure

15. 14th Finance Commission recommended funds as:

- (1) Central Assistance to States (CAS)
- (2) States Development Funds
- (3) States Shares in Sales Taxes
- (4) States Contribution to Centre

16. FRBM Act, 2012 put a ceiling to Fiscal Deficit of GDP is:

- (1) 6 percent
- (2) 5 percent
- (3) 4 percent
- (4) 3 percent

17. A tax is said to be buoyant if tax revenue is proportionally:

- (1) More responsive to changes in output.
- (2) Less responsive to changes in output.
- (3) Equally responsive to change in tax base
- (4) Less responsive to changes in tax base

18. Tax incidence refers to:

- (1) Whether a tax is progressive, proportional or regressive.
- (2) How often a tax is collected.
- (3) The person or group who ends up paying a tax.
- (4) How a tax is collected.

19. Assertion (A): A progressive income tax is based on equimarginal sacrifice.

Reason (R): Higher the income, lower will be the marginal utility of money for the tax Payers.

Codes:

- (1) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (2) (A) is true, but (R) is not the correct explanation of (A).
- (3) (A) is true, but (R) is false.
- (4) (A) is false, but (R) is true.

20. Which one of the following taxes is within the jurisdiction of the State Governments as enumerated in List-II of the Indian Constitution?

- (1) Taxes other than stamp duties on transactions in stock exchanges and future markets.
- (2) Taxes on Railway freight and fares.
- (3) Taxes on mineral rights subject to any limitation imposed by parliament.
- (4) Rate of stamp duty in respect of certain financial documents.

Section-B

4×5 = 20

Answer any four

1. Bring out the essential differences between Wagner and Peacock-Wiseman theories of public expenditure
2. Explain the need and theoretical basis for the Fiscal Responsibility and Budgetary Management Act in India.
3. What are the tax regime conditions that lead to international double taxation of corporate profits, and what are the usual methods adopted to alleviate it in the world?
4. What are the basic channels and types of transfers from the Center to States?
5. Explain the main short-comings of the working of the federal fiscal transfer system in India.

Section-C

3×10 = 30

Answer any three

6. Explain the ‘sustainability condition of public debt’ and derive it as the limit for the Debt stock-GDP ratio using the fiscal deficit financing identity.
7. Calculate and compare the tax liability and Net income after tax under tax credit and exemption method in case of international taxation under the following conditions
 - i. When foreign tax < Domestic tax

		Exemption	Credit
Total Income		200	200
Income arising in an overseas subsidiary		100	100
Foreign tax liability of the host country at	40%		
Domestic tax liability	60%		

ii. When foreign tax > Domestic tax

		Exemption	Credit
Total Income		200	200
Income arising in an overseas subsidiary		100	100
Foreign tax liability of the host country at	60%		
Domestic tax liability	40%		

8. How the public debt influences economy? Explain in detail.
9. Two consumers A and B have incomes of \$30,000 and \$100,000, respectively. A and B consume the same bundle of goods with a cost (including tax) of 24,000. The only tax on the economy is a commodity tax levied uniformly on all goods at a rate of 20 percent.
 - i. What proportion of income is paid in tax by A and B?
 - ii. What implications does such a tax have in terms of equity?
 - iii. Is there any way the commodity tax can be restructured to improve its equity properties?

Section-D

(30 Marks)

10. i) Explain the need for adopting VAT in India. [5 Marks]

ii) Consider the case of VAT being levied on a commodity transactions chain – say, producing bread. At the first stage, a farmer sells wheat to a miller. In the second stage, the miller makes flour and sells to the baker. At the third stage, the baker manufactures bread and sells it to a retailer who sells it to the final consumers. The values of the transactions are as follows: [25 Marks]

	Farmer (wheat)	Miller (flour)	Baker (bread)	Retailer (bread)
Purchase value (VAT-exclusive)	0	100	200	250
Sales value	100	200	250	300

Compute the total VAT liability using both ‘Subtraction’ method and ‘Tax credit-invoice’ method, and examine if the VAT liability computed by ‘Subtraction’ method is the same as that computed by the ‘Tax credit – invoice’ methods, – under the following cases (Show the results in separate tables):

- a. Normal VAT: (No exemption, No zero-rating). VAT rate is uniform for all commodities at 10%.
- b. Normal VAT: (No exemption, No zero-rating). VAT rates differ: 4% on wheat, 6% on flour and 8% on bread.
- c. The commodity bread is zero-rated. VAT rate is uniform for all other commodities at 10%.
- d. The commodity bread is zero-rated. VAT rates differ: 4% on wheat, 6% on flour and 0% on bread.