

**Al-Saudia Virtual Academy**  
**Pakistan Online Tuition – Online Tutor Pakistan**  
**“ECONOMICS” PAPER-II 2004**  
**(PUBLIC FINANCE)**

**Time allowed: Three Hours.**

**Max.Marks:100**

Instructions: 1) Attempt any FIVE questions.

2) All questions carry equal marks.

3) Draw diagrams where necessary.

1. Derive the PARETO OPTIMALITY conditions for efficient allocation of resources in a TWO person, TWO good, and 'TWO factor economy.
2. State and explain the first and second THEOREMS OF WELFARE ECONOMICS? How do the two theorems determine the scope of government intervention in Market economies?
3. What are Public goods?  
Under what condition the demand for public goods is optimal? Why might this Condition fail to realize in a competitive market economy?
4. Analyze and compare the efficiency and equity characteristics of a PROPORTIONAL, PROGRESSIVE and PROGRESSIVE WITH EXEMPTIONS income tax system. (Assume that LEISURE is a normal good).
5. What is tax incidence?  
How does the incidence of a particular sales tax depend on the demand and supply! elasticity's? Explain in detail the relevance of this result for tax policy.
6. Explain in detail why markets fail to allocate resources in the presence of externalities? What are the here solutions to the externality problem? Which solution is preferable and why?
7. What is meant by EQUITY?  
Explain the various concepts of equal sacrifice, their relationship with the concept of equity and their implications for the design of taxation system.
8. Give a detailed account of the changing composition of government expenditures and Taxes in Pakistan since 1990. What do these changes tell us about the objectives of fiscal policy?
9. Write short notes on any 'TWO of the following:-
  - (a) Cost – Benefit analysis.
  - (b) Fiscal Federalism.
  - © Measurement of Welfare Change.
  - (d) Re-distributive Role of Government.