

International Islamic University Chittagong

Department of Economics & Banking

Final Examination, Spring-2019

Program: BSS (Honours)

Course Code: ECON-3502

Time: 2.5 Hours

Course Title: Public Finance

Full Marks: 50

Answer any Five of the following questions. All parts of a question must be answered sequentially. Figures in the right margin indicate full marks.

1. (a) Is there any difference between real and transfer payment of public expenditure? If yes, explain the basic difference. 02
(b) You work at a Hotel in Chattogram; 80 dollars/hours and generally working time 8 hours/days. If recently you win a lottery ticket worthy of 500 dollars, what happen to labour supply. Use necessary graph if needed. 04
(c) Sitakunda is a village of Chattogram. Total population is 320000 and there are 5 schools in this village. Now Government takes a plan to install an educational institution by 10 million take. The plan was properly sanctioned by the ministry of education. Recently a national newspaper made a report on this matter and finds that there is no general hospital here. A general hospital can be built by the same amount of money. Was the cannon of public expenditure violated there? What do you think? Explain 04
2. (a) Explain the following terms: 04
I. Personal tax vs Payroll tax II. Custom duties vs Excise duties
(b) Define the Aggregate Demand. The policy maker of Bangladesh realised that there is a positive gap (excess money supply) between quantity of money supply and money demanded in the economy. Due to positive gap in money supply, general price level is gradually going out of lower income group. If the authority wants to improve the situation, what policy should be taken you think? Why? You can use graph if necessary. 06
3. (a) Why is currency not considered as public debt? 02
(b) The total amount of national budget FY2019-20 of Bangladesh is TK 5,23,190 crore and the total revenue is TK 3,77,810 crore. Bangladesh govt. must finance sufficient amount to recover the deficit of budget. Among public borrowing, taxation and money creation what policy should be used to finance the deficit in a situation of stagflation? What do you think? Explain 05
(c) What is the potential problem that an economy may come across if govt. prints money to repay debt? Briefly explain. 03
4. (a) What are the main goals of fiscal policies? 02
(b) The shortage of production is a problem for a country. On the other hand, attaining full employment is one of the crucial goals of fiscal policy. Now, graphically illustrate how a govt. can get rid of unemployment by using fiscal policies. 05
(c) Suppose, output gap is TK.1550 crore and MPC=0.80. Calculate: 03
I. The value of multiplier.
II. The amount of increase in govt. expenditure needed to attain in full employment.

5. (a) What do you mean by Tax? Are the following payment taxes? Justify your answer. 05
Gift, Fee for business license, betterment levy, excise duty and income tax?
- (b) What does incidence mean? if price of a mobile set increases by TK500, after a tax of TK 1500/per mobile set is imposed on mobile set manufacturer. In this case, how much the impact and the incidence of tax? 03
- (c) Briefly explain the "the ability -to-pay approach" of tax burden distribution. 02
6. (a) Is the national budget of Bangladesh deficit or surplus? Why? Briefly criticise the recent national budget (FY2019-20) of Bangladesh. 05
- (b) If per hours wage rate increase from TK 40 to TK 55, what would happen in the economy? Graphically explain. 05
7. (a) Graphically illustrate the concepts of equal absolute sacrifice and equal proportional sacrifice. 05
- (b) Suppose in a hypothetical tax system, there are vagueness in terms of timing of payments, the manner of payments, and tax rates. Tax payers are instructed to prepare hand-written tax return (which is very cumbersome) and submit that to the head office (instead of local or regional offices) which is located in the capital city of the country. Besides, allegedly the tax rates are such that tax payers in the lower income group are hurt more than that of higher income group. Mention whether the following canons are violated canon of certainty, canon of convenience, and canon of equality. Justify your answer. 05