

M.A./M.Sc. 2nd Semester Examination, 2025

ECONOMICS

(Public Economics and Corporate Finance)

PAPER — ECO-205

Full Marks : 50

Time : 2 hours

Answer all questions

The figures in the right hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

GROUP—A

Answer any two questions : 2×2

1. What is the fiscal gap and why is it regarded as a more comprehensive measure of fiscal health than the conventional measure of fiscal deficit? $1 + 1$

(Turn Over)

2. Explain the concept of club good. Give two examples.
3. Define the 'divisible pool of taxes'.
4. Show how the budget line of a state government differs between receiving an unconditional grant and a close-ended matching grant from the Union government.

Answer any two questions : 4×2

5. Explain the income effect and substitution effect of a matching grant.
6. Explain the need-based, equity-based, and performance-based criteria used by the Finance Commission of India for tax devolution.

7. Explain how the optimal size of a club is determined by equating the marginal benefit and marginal cost associated with the provision of a club good.
8. Which kind of government expenditure can be burdensome for the future generation and how? What are the limitations of the concept of crowding out effect of government expenditure. 2 + 2

Answer any one question : 8 × 1

9. How sustainability of public debt is defined in the Domar approach? Derive the conditions of such sustainability. What are the basic shortcomings of this approach? 1 + 5 + 2
10. Discuss the critical questions with which the economics of the public sector is concerned, particularly of the developing countries.

(4)

GROUP—B

Answer any two questions : 2 × 2

- 11. What is Capital budgeting ?**
- 12. What is CAPM ?**
- 13. Explain how the PBIT of a company is derived.**
- 14. Distinguish between liquidity ratio and turn over ratio.**

Answer any two questions : 4 × 2

- 15. With the help of a suitable diagram, explain systematic and unsystematic risk ?**
- 16. What do you mean by Portfolio Management ? Write its different steps. 2 + 2**

17. Two securities P and Q generate the following sets of expected returns, standard deviations and correlation coefficient :

Return from P (r_1) = 15

Return from Q (r_2) = 20

Standard deviation of security P = 50

Standard deviation of security Q = 30

Correlation coefficient = -0.6

A portfolio is constructed with 40 per cent of funds invested in P and the remaining 60 per cent of funds in Q. Calculate the expected return and risk of the portfolio. 2 + 2

18. Explain the different components of a company's balance sheet with a suitable example.

Answer any one question : 8×1

19. What are CML and SML ? Distinguish between them. $4 + 4$

20. Calculate

- (i) Net Present Value (NPV) and
- (ii) Discounted payback period of an investment, given the following :

An initial investment of Rs. 5,000 and
Discount rate is 10%

Expected cash flows :

(a) Year 1 : \$ 1,000

(b) Year 2 : \$ 2,000

(c) Year 3 : \$ 3,000

Is the investment desirable if the required
payback period is 4 years of less ? Explain.

4 + 4

[Internal Assessment — 10 Marks]