

1. Production of rubber for sneakers creates an external cost of \$2 per ton of rubber, but no external benefits. What government tax or subsidy program will lead to the efficient amount of rubber being produced? (1)
 - a. A subsidy of more than \$2 per ton of rubber.
 - b. A subsidy of \$2 per ton of rubber.
 - c. A tax of more than \$2 per ton of rubber.
 - d. **A tax of \$2 per ton of rubber.
2. Which of the following is not true in case of club goods? (2)
 - a. dual decision for optimal provision
 - b. always results in efficient provision like private goods
 - c. No congestion
 - d. **Includes entire population
3. Private provision of public goods. (2)
 - a. may fail because of the inability to collect a price from the consumers of the product.
 - b. succeeds because public provision is often less costly.
 - c. **succeeds if consumers are expected to obtain marginal benefits from the consumption of the public good.
 - d. fails because private firms generally have higher production costs than public operations.
4. Dead weight loss of indirect tax is high in case of. (3)
 - a. **Relatively elastic demand
 - b. Relatively inelastic demand
 - c. Unitary elastic demand
 - d. Perfectly inelastic demand
5. Lump sum grant means. (6)
 - a. A grant whose amount is sufficient to meet the expenditure.
 - b. A matching and conditional grant.
 - c. Grant given for a special purpose and it can be utilised only for that purpose.
 - d. **A grant whose amount is not dependent on any matching effort of the recipient.
6. In an economy with two people, i and j, efficiency for public goods is characterized by. (2)
 - a. $MSB = MSB$.
 - b. $MRS = MRT$.
 - c. ** $MRS_i + MRS_j = MRT$
 - d. $MC = MB$.
7. Solow-Binder theorem reemphasize that Fiscal policy does matter and does not lead to crowding out. Which of the following factor is not a main factor considered by the theorem to prove the above? (4)
 - a. Bond holdings
 - b. Demand for money
 - c. Consumption in product market
 - d. **Interest rates in money market
8. Interrial inflation is a situation where the prices in the economy is continuously adjusted to_____. (5)
 - a. Growth rate
 - b. **Price index

- c. Exchange rate
 - d. Interest rate
9. A tax system in which the marginal rate of taxation is higher than the average rate. (3)
- a. A regressive tax system
 - b. **A progressive tax system
 - c. A tax system which encourages additional effort
 - d. A proportional tax system