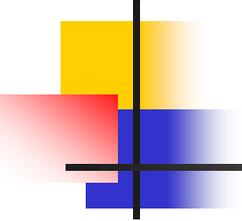


# Economics and Public Finance

## Tutorial 5

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- Topics for discussion:
  - Types of revenues
  - Meaning of tax
  - Desirable characteristics of a tax system
  - Inefficiency and "excess burden" of tax
  - Horizontal and vertical equity
  - Taxation principles

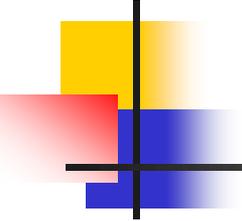


# Bibliography

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## Readings

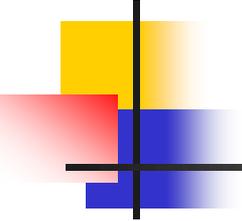
- **Stiglitz, Joseph, and Rosenberg** *Economics of the Public Sector* (4<sup>rd</sup> ed.)
  - Five desirable characteristics of any tax system, pp. 538-548
  - The deadweight loss of taxation (574-584) – (no necessary to analyse the discussion with indifference curves)
  - Tax incidence in competitive markets p.538-548)
  - P. 523-526 (horizontal and vertical equity).
- **See slides lectures 7 and 8**



## Topics for discussion - 1

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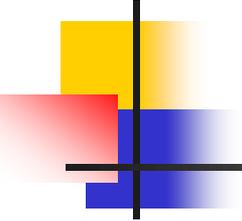
- a) Distinguish between taxes and fees.
  
- b) To which kind of these two public revenues is the benefits principle better applied? Justify.



## Topics for discussion - 2

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- a) What is meant by "excess burden" of a tax?
- b) Is there any tax that do not generate inefficiencies? How do you evaluate it in what concerns equity?
- c) What is a tax that intentionally distorts the economic behavior? What impact has on efficiency? Give an example.

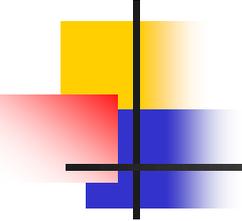


## Topics for discussion - 3

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Considering the desirable characteristics of a tax system:

Make a brief distinction between efficiency and financial effectiveness.

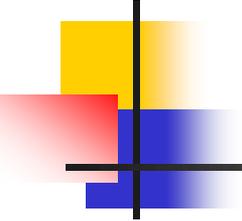


## Multiple Choice - 1

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Say which of the following types of income are not *effective* revenues:

- a) Fee charged on the license to carry a weapon.
- b) University fees.
- c) Revenue from Treasury Bonds.
- d) Sale of a Ministry's vehicle fleet.

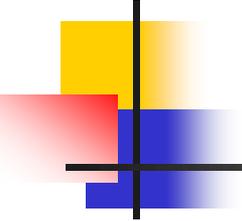


## Multiple Choice - 2

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**The excess burden generated by a new tax on production of a given good is approximately equal to:**

- a) The loss of well-being for consumers and producers resulting from the tax.
- b) The difference between the overall loss of welfare resulting from the tax and the tax revenue obtained from it.
- c) The loss of well-being for the producers resulting from the payment of the tax.
- d) The loss of well-being for consumers due to the price increase.

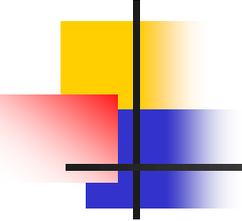


## Multiple Choice - 3

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**The payment of tolls on motorways is mainly a manifestation of the:**

- a) Principle of ability to pay.
- b) Principle of the effectiveness of a tax system.
- c) Principle of benefit.
- d) Principle of the efficiency of the tax system.

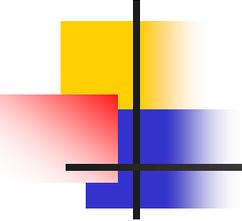


## Multiple Choice - 4

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**Say which of the following types of income is not coercive:**

- a) Contribution to Social Security payable by firms.
- b) Personal Income Tax.
- c) Traffic ticket.
- d) University fees.

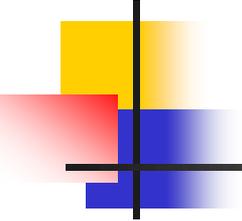


## Multiple Choice - 5

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**Pollution or energy consumption taxes can be classified as:**

- a) Pigouvian or non-distorting taxes.
- b) lump sum taxes.
- c) Taxes correcting negative externalities.
- d) Neutral taxes from the point of view of efficiency.

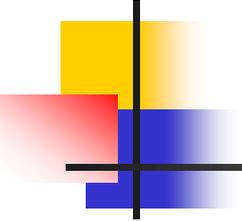


## Multiple Choice - 6

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**In income taxation, the consideration of different family situations (size and composition) for equal equivalent income is a realization of:**

- a) The benefit principle.
- b) The principle of fiscal justice.
- c) The criterion of vertical equity.
- d) The criterion of horizontal equity.



# Exercise

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Consider the following demand and supply functions for a good in a competitive market:

■ Demand:  $Q_d = 20 - 0.1P$

Supply:  $Q_s = -40 + 0.5P$

- a) Compute the equilibrium in the market, before and after the imposition of a unitary tax of 12 euros on producers.
- b) Calculate the excess tax burden (deadweight loss) of the tax and its relation with the tax revenue .