

Name: \_\_\_\_\_ Number: \_\_\_\_\_ Class \_\_\_\_\_

**Economics and Public Finance**  
**ISEG - School of Economics and Management**

**Progress Assessment Test, 31 March 2014 - Duration of the test: 45 minutes**

1. **Fill in the response grid on this page**, making a cross (X) on the correct answer. In case of error, cross over and put the cross in another box.
2. A right answer will be marked +1 point. A wrong answer will be marked -0.2 points.
3. Reply only if you think there is a high probability of being the correct answer. If you have many doubts leave it blank.
4. **It is not allowed to use mobile phones, calculators, or computers. Improper use will lead to cancellation of the test.**
5. The student may only leave the room after the test has finished.
6. The student gives back both the answer page and the questions pages.

Good luck!

*Correct answer in ITALICS*

**Answer Grid:**

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)	a)
b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)	b)
c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)	c)
d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)

**1. Which of the following statements is true in the context of the positive analysis?**

- a) The State should only borrow money to finance investment and not current spending.
- b) *It is projected that in Portugal the real GDP growth rate will be approximately 0.4% next year.*
- c) Complying with the “golden rule” of public finances is a good principle of fiscal policies.
- d) There should be a new social solidarity benefit to support the income of people with pensions below 300 euros per month.

**2. We can include in the stabilization function of the State:**

- a) The regulation of economic activities that cause situations of imperfect competition (e.g. monopolies).
- b) *The interventions that aim at the stability of the general price level and the external balance.*
- c) The provision of merit goods.
- d) The interventions in the tax area with the purpose of improving the redistribution of income in the society.

**3. One of the distinctive characteristics of the redistribution function of the State has to do with:**

- a) Answers to market failures.
- b) Answers to government failures.
- c) Financial support to export activities.
- d) *Promotion of equality of opportunities.*

**4. The possibility that some decisions that affect public spending, in a country, may imply intertemporal inconsistency is a characteristic of the view of the State as:**

- a) Minimum State.
- b) *Imperfect State.*
- c) Welfare State.
- d) Peripheral State.

**5. Which of the following statements is true? The authors that support the concept of *Modern Finances* consider that:**

- a) The share of the State in the economy must be significant, to answer essentially to the requirements of the allocation function.
- b) Public spending could be financed via taxes, government debt or monetary issuance, although within the constitutional rules.
- c) *Current spending has to be financed with current revenues, while part of capital spending can be financed via government debt.*
- d) The financial activity of the State is limited to the Public Administrations.

**6. A private company built and manages a municipal swimming pool, and the users have to pay to use the swimming pool. We are facing a case of:**

- a) Public provision and public production.
- b) *Private provision and private production.*
- c) Public provision and private production.
- d) Private provision and public production.

**7. Consider a good with normal demand and supply. Given a positive externality, the adequate public policy would result in:**

- a) Increase of the quantity and reduction of the price for the producer.
- b) Reduction of the quantity and increase of the price for the consumer.
- c) *Increase of the quantity and reduction of the price for the consumer.*
- d) Reduction of the quantity and reduction of the price for the producer.

**8. There is necessarily a market failure when, for a given good:**

- a) There are no transactions.
- b) There is a least one price for which some consumers are willing to buy the good and some producers are willing to sell the good, but demand is higher than supply.
- c) There are not enough transactions.
- d) *There is at least one price for which some consumers are willing to buy the good and some producers are willing to sell the good, but there is no market.*

**9. Which is the true statement?**

- a) *There can be exclusion for public goods.*
- b) There is no exclusion for private goods.
- c) There is rivalry in consumption for public goods.
- d) There is no rivalry in consumption for private goods..

**10. A pigouvian subsidy in a competitive market:**

- a) Is a unitary subsidy equal to the external marginal cost at the optimal level of output.
- b) *Is a unitary subsidy equal to the external marginal benefit cost at the optimal level of output.*
- c) Is a subsidy on income equal to the external marginal cost at the optimal level of output.
- d) Is a subsidy on income equal to the external marginal benefit at the optimal level of output.

**11. Assuming that utility (well-being) depends only on the level of income available for the individuals, which of the following situations illustrates, *ceteris paribus*, an improvement of well-being both for the utilitarians and for the rawlsians?**

- a) Reduction of the maximum VAT rate and reduction of two percentage points in the marginal rates of the three last personal income tax brackets?
- b) *Increase of the average wage in the economy and increase of social reinsertion benefits.*
- c) Exemption of tuition fees in the public tertiary education system and increase of the average retirement pension.
- d) Elimination of the fees for assessing to public hospitals and increase in the progressivity of the personal income tax.

**12. Assuming that individuals are different and that their utility depends only on income, that marginal utility is decreasing, and that there are no redistribution costs, then:**

- a) The utilitarian social optimum is when the individuals have the same income.
- b) The rawlsian social optimum is when the individuals have the same income.
- c) *The utilitarian social optimum is when the individuals have the same marginal utility of income.*
- d) The rawlsian social optimum is when the individuals have the marginal utility of income.

**13. A tax system based exclusively on indirect taxes (e.g. VAT) would be a good tax system from the perspective of the following characteristics:**

- a) Efficiency and equity.
- b) Equity and flexibility.
- c) Transparency and efficiency.
- d) *Financial effectiveness and efficiency.*

**14. A merit good is a good:**

- a) That is public.
- b) That has merit for some consumers.
- c) *Where one does not necessarily observe consumer freedom.*
- d) Acquired with effort and deserved.

**15. In which situation does not exist a conflict between efficiency and equity, defined according to the principle of the ability to pay:**

- a) Elimination of assess fees to hospitals.
- b) Introduction of tolls in congested bridges.
- c) Elimination of tariffs on urban solid waste.
- d) *Introduction of tariffs on beach sunblinds in beaches that are seldom used.*

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

- a) *Pigouvian taxes* or non-distortionary taxes.
- b) *Lump-sum* taxes.
- c) *Taxes that correct negative externalities.*
- d) Neutral taxes from an efficiency perspective.

**17. Identify the true statement relative to the advantages and limitations of implementing for taxes the Benefits Principle:**

- a) More efficiency in the provision of goods and services and capacity to react automatically to the business cycle.
- b) *More efficiency in the provision of goods and services but lack of capacity to pursue a redistributive policy.*
- c) More social acceptance and redistributive capacity, both in money and in goods and services.
- d) More social acceptance e facility of implementation given that it does not require the revelation of preferences for public goods by the individuals.

**18. Consider the market (in perfect competition) for good X. The government creates a new tax on enterprises in the amount of 5 euros per unit produced. Under which conditions can one say that the market price will increase by the same amount?**

- a) In a perfect competition market it is not possible to observe that result.
- b) If the demand and supply curves are both relatively elastic.
- c) If the demand curve is relatively elastic and the supply curve is rigid.
- d) *If the demand curve is rigid and the supply curve is relatively elastic.*

**19. Identify the true statement. An increase in taxation on tobacco:**

- a) Is justified from a perspective of efficiency and equity.
- b) *Is justified from a perspective of efficiency but it is negative from an equity perspective.*
- c) Cannot be explained either from an efficiency perspective or from an equity perspective.
- d) Is justified from an equity perspective although it generates losses in terms of efficiency.

**20. The excess burden of taxation generated by a new tax on a given good, corresponds approximately to:**

- a) The loss of well-being for the consumers and to the producers resulting from the tax.
- b) *The difference between the global loss of well-being resulting from the tax and the tax revenues obtained with the tax.*
- c) To the loss of well-being for the producers resulting from the payment of the new tax.
- d) To the loss of well-being for the consumers due to the increase in the price of the good.