



Name: _____ N° _____ Class _____

Economics and Public Finance
ISEG - School of Economics and Management

Progress Assessment Test, 7 April 2016 - 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 -0.3 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!

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. The redistribution function of the Government incorporates, among other aspects:

- A) Public provision of public goods.
- B) Tax policies that correct externalities.
- C) *Public provision of merit goods.*
- D) Promotion of the export industry.

2. Which of the following statements fits in the context of the normative analysis of Public Finances?

- A) According to the 2016 State Budget forecasts, the revenues from the Municipal Tax on Real Estate will increase by 2.3%.
- B) *The duration of the Minimum Income Payments should be increased in order to allow a better and more efficient way of dealing with poverty and persistent economic inequality.*
- C) Having access to bank accounts information implies some conflict between equity and liberty.
- D) The Council of Public Finances forecasts for 2016 real economic growth of 1.7%.

3. The Government bought for the Portuguese Airforce new F-18 fighter jets. This decision can be framed, according to Musgrave's terminology, in the following function of the Government:

- A) Distribution function.
- B) *Allocation function.*
- C) Stabilisation function.
- D) Defence function.

4. The partial exemption in the payment of tuition fees in public universities, for students from lower income households:

- A) Improves equity but worsens efficiency.
- B) Improves efficiency but worsens equity.
- C) *Improves both efficiency and equity.*
- D) It is neutral both for efficiency and for equity.

5. The possibility that some decisions have an impact on effective government spending of a country being influenced by particular pressure groups occurs in the context of the analysis related to the conception of:

- A) The Welfare State.
- B) The Minimum State.
- C) *The Imperfect State.*
- D) The Liberal State.

6. One of the following statements false:

- A) The supporters of the Minimum State argue that the role of the State is important to ensure the existence of the institutions necessary to the good functioning of markets.
- B) The supporters of the Welfare State consider that the distribution function is the most important function of the government.
- C) The supporters of the Imperfect State consider that without constitutional limitations, the size of the government in the economy can rise beyond control.
- D) *The supporters of the Minimum State argue that Estado plays an important role in macroeconomic stabilization.*



7. The “golden rule” is a principle of the Public Finances system in the framework of:

- A) *Interventionist Public Finances and Modern Public Finances.*
- B) Modern Public Finances and Classical Public Finances.
- C) Financial Constitutionalism and Classical Public Finances.
- D) In all Public Finances systems.

8. Consider the individual and facultative option of vaccination against the flu. This is:

- A) A private good whose consumption generates negative externalities. Therefore, the government intervenes on the price via a pigouvian tax.
- B) *A private good whose consumption generates positive externalities. Therefore, the government intervenes on the price via a pigouvian subsidy.*
- C) A public good whose individual consumption does not generate effects for other individuals.
- D) A public good whose individual consumption generates positive and negative externalities.

9. Assuming the utility of the individuals depends exclusively of their income identify the measure that improves social welfare both for utilitarianism and for rawlsianism:

- A) Reduction of the VAT tax rate in restaurants from 23% to 13%.
- B) *Increase in social payments to households in a situation of poverty, without any increase in taxes.*
- C) Reduction in the value of the tuition fees in the public universities.
- D) Increase of 2% in all old age pensions.

10. The government wants to determine the optimal quantity of national defence for 2017. We can state that:

- A) As in any other good, the optimal quantity can be determined by the market rules.
- B) The optimal quantity is the one for which the price equalises the private marginal benefit to the marginal production cost.
- C) The optimal quantity is the one for which the fiscal price equalises the sum of the private marginal benefits, revealed by the individuals.
- D) *The determination of the optimal quantity implies knowing the marginal dispositions to pay for each additional unit of the good, which are not revealed by the individuals.*

11. A municipality gives the management of a nursery to a private firm who fixes, per children, a monthly fee to be paid by the parents. This is a case of:

- A) Public production and public provision.
- B) Public production and private provision.
- C) Private production and public provision.
- D) *Private production and private provision.*



12. The introduction of tolls in a non-congested bridge:

- A) Is not possible because of legal and technological reasons.
- B) Although legal, it is not possible due to technological reasons and it is also not possible to implement exclusion given its non-rivalry in consumption.
- C) *Although legal and technologically possible, it is not economically desirable since it does not provide an efficient solution.*
- D) It is legal, technologically possible, and improves efficiency.

13. A municipality decides to provide free public transportation. This is a decision that:

- A) Promotes equity and efficiency.
- B) Does not generate a conflict between equity and efficiency.
- C) Is oriented towards equity but generates an excessive utilization until when the marginal costs equal the marginal benefit.
- D) *Is oriented towards equity but generates an excessive utilization until the marginal benefit becomes null.*

14. Given the principle of the ability to pay, each taxpayer should pay an amount of taxes according to:

- A) Her labour income.
- B) Her time deposits income.
- C) *Her total income, adjusted for the dimension of her household.*
- D) Her gross income.

15. If a tax system generates revenues that adequate to finance public spending and minimizes the distortionary effects on the agents' decisions, then it verifies the following characteristics:

- A) Financial effectiveness and equity.
- B) *Efficiency and financial effectiveness.*
- C) Efficiency and transparency.
- D) Financial effectiveness and tax effectiveness.

16. The government created a unitary tax on producers of a good, traded in a competitive market. The elasticity of supply is 1.5 and the elasticity of demand (module) is 0.5. Since the tax generated a tax revenue 100 mu:

- A) The legal incidence is on the producer and the economic incidence on the consumer 25 mu.
- B) The legal incidence is on the consumer and the economic incidence on the consumer is 75 mu.
- C) *The legal incidence is on the producer and the economic incidence on the consumer is 75mu.*
- D) The legal incidence is on the consumer and the economic incidence on the producer is 25 um.

17. Identify a pigouvian tax in the Portuguese tax system:

- A) *Excise tax on alcohol and alcoholic beverages.*
- B) Personal income tax.
- C) Municipal tax on real estate property.
- D) Value added tax.



18. According to the benefits principle, hospital emergencies should be paid by:

- A) All National Health System users.
- B) *Hospital emergency users.*
- C) The Social Security contributions.
- D) Taxes.

19. Which of the following revenues are not effective revenues?

- A) *Revenue from selling Treasury Bills.*
- B) Revenue from a speeding ticket.
- C) Revenue from selling a building of the Ministry of Defence.
- D) Revenue from a municipal tariff for sewer utilisation.

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

- A) The loss of global welfare for consumers and producers resulting from the tax.
- B) *The difference between the loss of global welfare resulting from the tax and the tax revenues collected as the result of the tax.*
- C) The loss of welfare for consumers resulting from the increase in the price.
- D) The difference between the tax revenues collected as the result of the tax and the loss of global welfare resulting from the tax.