



Name: \_\_\_\_\_ N° \_\_\_\_\_ Class \_\_\_\_\_

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

Progress Assessment Test, 31 March 2017 - 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. Which of the following statements fits the normative analysis of Public Finances:**

- a) VAT revenues are forecasted to increase by 1% in the next year.
- b) The minimum income is a payment in the framework of social security systems targeted to mitigate poverty.
- c) Around 2/3 of government spending is to pay the salaries of civil servants and pensions.
- d) The minimum income payment should be higher in order to deal with poverty with more efficacy.

**2. The Government gives the police forces new speed radars in order to prevent traffic accidents. In the context of the functions of the government of Musgrave this measure is framed in the:**

- a) Distribution function.
- c) Stabilization function.
- d) Security function.
- d) Allocation function.

**3. A better functioning of the judiciary system in a country:**

- a) Improves efficiency but worsens equity.
- b) Improves equity but worsens efficiency
- c) Improves both efficiency and equity.
- d) It is neutral both for efficiency and equity.

**4. The fact that the government should reduce economic insecurity allowing individuals to face social risks (old age, unemployment, sickness, disability,...), fits the philosophy of:**

- a) Minimum State.
- b) Welfare State.
- c) Imperfect State.
- d) Democratic State.

**5. The existence of public works carried out by the municipalities before local elections is an example sometimes seen as one of the following failures of the State in the context of the Imperfect State framework:**

- a) Rent seeking.
- b) Political business cycle.
- c) Intertemporal inconsistency.
- d) Bureaucracy.

**6. Which of the following statements is false:**

- a) In the context of the EMU countries, modern public finances are a synthesis of financial constitutionalism and financial interventionism.
- b) Financial interventionism accepts the existence of government debt to finance government expenditures.
- c) Classical public finances defend that government spending must be financed by taxes and government debt.
- d) Financial constitutionalism advocates the need for having constitutional rules that limit the budget deficit and government debt.

**7. A municipality decides to provide free water to all households with very low income. What can we say about this decision?**

- a) It is socially fair and does not interfere with efficiency since it is a public good.
- b) It is socially fair and efficient because it is a private good.
- c) It is not justifiable for reasons of equity and efficiency.
- d) It is socially fair but can generate inefficiencies due to excessive consumption.



**8. The social optimum in an economy corresponds to a situation that is:**

- a) Pareto efficient.
- b) Located above the Utility Possibilities Frontier.
- c) Efficient and the most fair according to a given Social Welfare Function.
- d) Efficient and most fair, for all Social Welfare Functions.

**9. The tobacco tax:**

- a) Corrects a negative externality in consumption and its amount should equal the external marginal cost for the optimal quantity.
- b) Corrects a negative externality in consumption and its amount should equal the external marginal benefit.
- c) Corrects a negative externality in production and its amount should equal the social marginal cost.
- d) Corrects a negative externality in production and its amount should equal the external marginal cost for the optimal quantity.

**10. Contrary to private goods, it is not possible to quantify the optimum quantity of a public good. What explains this impossibility?**

- a) The concept of optimum quantity does not apply to public goods.
- b) Individuals do not reveal voluntarily their marginal dispositions to pay.
- c) It is not possible to determine the marginal cost.
- d) It is not possible to quantify potential consumers.

**11. A private firm rents a public building to place an elderly care facility, and the users of the facility fully pay the monthly payments. 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. Which measure unequivocally implies an increase in the social welfare from a Rawlsian perspective?**

- a) Increase in the scholarships for PhD courses.
- b) No payment of access fees to health care for unemployed.
- c) Reduction of tuition fees in the public tertiary education.
- d) Increase in the wages of civil servants.

**13. Assume the following hypothesis: individuals are different; there are no redistribution costs; and the marginal utility of income is decreasing. Utilitarianism defends a redistribution of income until:**

- a) There is an equalization of the marginal utility of individuals.
- b) There is an equalization of the total utility of individuals.
- c) There is the total equalization in terms of income distribution.
- d) There is the elimination of poverty.

**14. It is desirable that a tax system contributes automatically to reduce the economic fluctuations (prices, employment, GDP). This characteristic of the tax system is:**

- a) Flexibility.
- b) Transparency.
- c) Automatism.
- d) Financial efficacy.



**15. Regarding income taxation, taking into account different household characteristics (size and composition) for an equal monetary income is the implementation of:**

- a) The benefits principle.
- b) The tax equality principle.
- c) The vertical equity criterium.
- d) The horizontal equity criterium.

**16. The payment of entrance fees in a swimming pool is an example of:**

- a) The ability to pay principle.
- b) The efficacy principle of a tax system.
- c) The benefits principle.
- d) The efficiency principle of a tax system.

**17. Taxes on river pollution made by industrial firms can be classified as:**

- a) Pigouvian, non-distortionary taxes.
- b) Lump sum taxes.
- c) Taxes that correct negative externalities.
- d) Taxes on firms' income.

**18. Which of the following government revenues are not effective revenues?**

- a) Revenues from the issuance of government debt.
- b) Personal income revenues.
- c) Municipal tax revenue from urbanisation infrastructures.
- d) VAT revenues.

**19. The excess burden of taxation generated from a new tax on a good, is approximately:**

- a) The loss of consumers and producers welfare from the existence of the tax.
- b) The difference between the loss of global welfare and the tax revenues collected as the result of tax.
- c) The difference between tax revenues collected as the result of tax and the loss of global welfare.
- d) The difference between the loss of welfare resulting from the tax and half of the tax revenue from the tax.

**20. In the context of the of the Dupuit-Laffer curve for a given tax on consumption:**

- a) It is possible to obtain the same tax revenue with different tax rates.
- b) It is possible to obtain two different levels of tax revenues with the same tax rate.
- c) It is always possible to obtain more tax revenues by raising the tax rate.
- d) It is possible to obtain two different levels of tax revenues with the same interest rate.