



Name: _____ N° _____ Class _____

Economics and Public Finance
ISEG - School of Economics and Management

Progress Assessment Test, 13 April 2018 - **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 questions fits in the context of the positive analysis of Public Finances?**
 - a) Which should be the scope of intervention of the government in the economy regarding the management of government spending and revenue?
 - b) Which public policies have priority and should be supported by government spending?
 - c) *What are the effects of manipulating certain fiscal policy variables to attain macroeconomics objectives?*
 - d) Which should be the set of fiscal policies used to promote the sustainability of public finances?

- 2. The opinions of the economists are divergent because:**
 - a) They have different values.
 - b) They have different views about the functions of the State in a mixed economy.
 - c) They disagree about the models that are more suitable to reality.
 - d) *They disagree both about the normative analysis and about the positive analysis.*

- 3. The judicial protection of property rights, and contract regulation, in the context of an adequate judiciary system is accepted:**
 - a) Only in the Welfare State concept.
 - b) Only in the Minimum State concept.
 - c) *In the Minimum State, Welfare State, and Imperfect State concepts.*
 - d) Only in the Minimum State and Imperfect State concepts.

- 4. In a given country the Ministry of Health decides to reduce the access fee to public hospital emergencies from 35 euros to 15 euros. Assuming that the demand for service has some elasticity, this change most likely will increase:**
 - a) Efficiency but worsens equity.
 - b) *Equity but worsens efficiency.*
 - c) Equity but will not have any effect on efficiency.
 - d) Efficiency but will not have any effect on equity.

- 5. The unemployment subsidy is an example of a measure that fits the following economic function of the State:**
 - a) *Distribution.*
 - b) Stabilization.
 - c) Judicial.
 - d) Allocation.

- 6. Say which of the following statements is true. In the context of Modern Public Finances:**
 - a) Government spending is financed via taxes and via government borrowing, assuming also the possibility of issuing money.
 - b) Government spending should be financed exclusively via taxes.
 - c) Government spending should be financed exclusively via taxes and the issuance of money.
 - d) *Government spending can be financed via taxes and government borrowing, not considering the possibility of issuance of money.*

- 7. When the government changes the way old age pensions are calculated in order to benefit the current generation of pensioners, that can be seen as the following market failure (in the Imperfect State concept):**
 - a) Rent seeking.
 - b) Bureaucracy.
 - c) *Intertemporal inconsistency.*
 - d) Political business cycle.

- 8. A municipality arranged for a private firm to operate a kindergarden. The municipality fully finances the monthly fee of each child. This is a case of:**
- Private production and private provision.
 - Public production and public provision.
 - Private production and public provision.*
 - Public production and private provision.
- 9. Consider a rawlsian Welfare Function. Identify the measure that unequivocally contributes to the increase of the welfare of the society:**
- Increase of the value of the unemployment subsidy.
 - Increase of public investment in elderly day care facilities.
 - Reduction in the price of the vaccine against the flu.
 - Creation of a social payment for elderly people in extreme poverty.*
- 10. Consider a society with two social groups (A and B). In a situation of equal distribution of income, the marginal utility of group A is higher than the marginal utility of group B. In this case, according to the utilitarian view:**
- The State should not change the distribution of income.
 - The State should redistribute income from group B to group A until the equalization of the respective marginal utilities.*
 - The State should redistribute income from group A to group B until the equalization of the respective marginal utilities.
 - The State should redistribute income from group B to group A until the equalization of the respective total utilities.
- 11. The intervention of the State in tertiary education is explained by the fact that it is a private good with a positive externality. We can say that:**
- The pigouvian subsidy should be equal to the external marginal benefit, for the optimal quantity of university graduates.*
 - Since it is not possible to determine empirically the size of the externality, the State does not intervene.
 - The pigouvian subsidy should be equal to the social marginal benefit, for the optimal quantity of university graduates.
 - The pigouvian subsidy should be equal to the social marginal benefit, for the equilibrium quantity.
- 12. In a certain region there is a high number of unemployed people in a situation of poverty. The respective municipality decides to provide them free water supply. In this case:**
- There will be no conflict between equity and efficiency.
 - Since water is a private good, the municipality should not interfere with the market price.
 - There will be overconsumption of water and the efficiency loss will be higher the more elastic is the demand curve.*
 - There will be overconsumption of water but the elasticity of demand does not influence the loss of efficiency.
- 13. A social optimum corresponds to a state of the economy that is:**
- Not efficient because it is below the Utility Possibilities Frontier (UPF).
 - Socially fair but not efficient.
 - Impossible to reach since it is above the UPF.
 - Efficient and the most fair according to a given Social Welfare Function.*



14. In the case of a public good there is:

- a) Rivalry in consumption and price exclusion.
- b) Rivalry in consumption and it is never possible for exclusion to occur.
- c) Non-rivalry in consumption and it is never possible for exclusion to occur.
- d) *Non-rivalry in consumption and although exclusion can be possible it is not desirable.*

15. Regarding a lump sum tax, which is the correct statement?

- a) It is socially fair.
- b) *The marginal rate is zero.*
- c) It is not useful to reduce the budget deficit.
- d) It promotes vertical equity.

16. Which of the following statements is incorrect. The excess burden of taxation:

- a) Measures the degree of inefficiency of a tax.
- b) It is approximately equal to the difference between the reduction of the consumer and producer surplus and the tax revenue.
- c) *It is the loss of social welfare of consumers and producers resulting from the tax.*
- d) It is measured approximately by the Harberger triangle.

17. Which of the following types of revenues are not effective revenues:

- a) *Revenue from issuing government debt.*
- b) Revenue from a parking fine.
- c) Revenue from selling a building of the Ministry of Education.
- d) Revenue from VAT.

18. Which of the following alternatives is not a characteristic of an ideal fiscal system:

- a) Equity.
- b) Efficiency.
- c) Flexibility.
- d) *Ralwsianism.*

19. Identify a pigouvian tax:

- a) *Tobacco tax.*
- b) Tax for a positive externality.
- c) Corporate income tax.
- d) Value added tax.

20. According to the benefits principle, the use of a municipal swimming pool should be:

- a) Free.
- b) *Paid by the users of the swimming pool.*
- c) Paid with direct taxes.
- d) Paid with indirect taxes.