

Economics and Public Finance
ISEG - School of Economics and Management

Exam, 23 June 2017 - **Duration: 2h 30m**

- 1. The exam has three groups. The points for each question are mentioned alongside.**
- 2. The answers to the questions of each group have to be made in different sheets.**
- 3. Only non-graphical calculators are allowed. It is not allowed the use of mobile phones or computers. Improper use will lead to cancellation of the exam.**
- 4. It is not possible to use any reading material. During the exam no clarifications can be made.**

I

Answer the following questions:

1.

- a) Characterize succinctly two normative criteria used in the assessment of public policies, in the context of the role of the government in the economy. [1.25]
- b) Identify and explain briefly, two failures of the government related to the theoretical framework of the Imperfect State. [1.75]

2. Identify and give an example of a private good with public provision. Discuss concisely the eventual existence of a conflict between efficiency and equity. [2.00]

II

3. Answer the following questions:

- a) In the context of the Portuguese tax system identify: [1.00]
 - i. A distortionary tax.
 - ii. A tax whose revenues go to the Local Government.
 - iii. A tax that verifies horizontal and vertical equity criteria.
 - iv. An indirect tax with high financial efficacy.

b) How do you assess the Value Added Tax (VAT) from an equity perspective? [1.25]

c) Consider a good X traded in a competitive market. The government introduces a unitary tax on producers of EUR 2. The traded quantity remains unchanged and the market price increased from EUR 10 to EUR 12. Illustrate graphically and identify: i) the type of repercussion; ii) the legal and economic incidence of taxation; iii) the excess burden of taxation. [1.75]

4. Answer the following questions:

a) The next table presents the data for the General Government in Portugal, in 2015. Determine the share of current spending, in total current spending, for each subsector and comment the results. [1.25]

b) Using the same table, consider the following changes:

- Increase in VAT revenues in the Regional Administration: + 500 EUR millions.
- Increase in current transfers from the Central Administration to the Local Administration: + 500 EUR millions.
- Decrease in interest payments by the Central Administration: - 200 EUR millions.
- Increase in old age pension spending: + 150 EUR millions.

Determine the total balance and the primary balance for the Central Administration.
[present your calculations] [1.25]

c) Taking into account the concepts of decentralization and of de-concentration, classify the following changes: [1.00]

- Transfer of competencies from the Ministry of Education to the Local Government.
- Creation of regional delegations in the context of the Directorate-General Economics (Ministry of Economics).
- Transformation of an agency of the indirect administration of the Central Administration into an agency of the direct administration of the Central Administration.

Public Accounts- Millions of EUR	Central Admin.	Regional & Local Gov.	Social Security	Public Admin.
CURRENT REVENUE	54.627,9	8.418,1	25.237,9	74.571,5
Direct taxes	22.093,8	1.078,6	170,4	23.342,8
Indirect taxes	18.219,9	3.112,2	0,0	21.332,1
Social security contributions	4.731,3	10,1	14.345,8	19.087,2
Other current revenues	9.582,9	4.217,2	10.721,7	10.809,4
<i>(of which: transfers from other subsectors)</i>	<i>1.855,6</i>	<i>2.713,3</i>	<i>9.143,5</i>	<i>0,0</i>
CURRENT EXPENDITURES	58.794,4	7.112,5	24.357,7	76.552,2
Wages	14.856,6	3.445,7	269,5	18.571,8
Acquisition of goods and services	8.418,8	2.371,6	103,0	10.893,4
Subsidies	710,6	220,4	339,4	1.270,4
Interest payments	8.201,7	404,9	7,9	8.614,5
Current transfers	24.898,3	537,5	23.623,6	35.347,0
<i>(of which: transfers to other subsectors)</i>	<i>11.799,9</i>	<i>50,9</i>	<i>1.861,6</i>	<i>0,0</i>
Other current expenditures	1.708,4	132,4	14,3	1.855,1
CAPITAL REVENUES	1.929,7	1.509,7	6,7	2.780,2
<i>(of which: transfers from other subsectors)</i>	<i>7,9</i>	<i>656,0</i>	<i>2,0</i>	<i>0,0</i>
CAPITAL EXPENDITURES	4.372,3	2.132,7	44,9	5.883,9
Investments	2.987,5	1.770,4	35,7	4.793,6
Capital Transfers	1.227,4	318,4	9,2	889,0
<i>(of which: transfers to other subsectors)</i>	<i>630,0</i>	<i>36,0</i>	<i>0,0</i>	<i>0,0</i>
Other capital expenditures	157,4	43,9	0,0	201,3

III

5. In the context of the State Budget:

a) “The State Budget includes the total revenues and total expenditures of the entire General Government”. Comment and justify accordingly. [1.50]

b) Explain the difference between effective revenues and non-effective revenues and present an example for each of those revenue categories, mentioning the respective effect on the budget balance.

[1.50]

6. The following table presents information for the Stability Program of a given country in the period 2018-2021.

	2018	2019	2020	2021
Budget balance of Public Administrations (% of GDP)	1,5	2,25	3,0	4,5
Cyclical component of the budget balance (% of GDP)	0,5	0,8	1,0	2,0
Primary budget balance (% of GDP)	5,0	5,5	6,0	7,4
Government debt (% of GDP)	130,0	128,5	126,3	123,3
Real GDP growth rate (%)	2,0	2,5	3,0	3,5

a) Compute the interests paid by the Government (% of GDP) and the structural budget balance (% of GDP) for each year of the Program. How do you assess the expected development of the public accounts to achieve the Medium Term Objective, in the context of Stability Pact?

[1.50]

b) On the basis of the available data in the table, characterize and justify the cyclicity of fiscal policy and also its expansionist or contractionist stance in the period under analysis. [1.50]

c) Is the planned adjustment for the debt-to-GDP ratio in line with the budgetary rules in the context of the European Fiscal Stability Treaty? [1.50]