

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

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

Progress Assessment Test, 12 April 2019 - **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. In the context of positive analysis, which statement is correct:**

- a) The minimum wage adequately defines the level of income for dignified life.
- b) The unemployment subsidy should be given for a longer period.
- c) *The total budget balance is forecasted to be balanced next year.*
- d) The tax benefits given in the context of the Personal Income Tax should be lower.

**2. The stabilisation function of the State includes public policies related with:**

- a) The fiscal correction of externalities that result of some economic activities.
- b) The provision of merit goods.
- c) *The promotion of more qualified level of employment.*
- d) The adequate provision of public goods.

**3. Better conditions of access for the social security services, by the citizens with more economic difficulties:**

- a) Improves equity by worsens efficiency.
- b) Improves efficiency but worsens equity.
- c) It is neutral both in terms of efficiency and in terms of equity.
- d) *Improves both efficiency and equity.*

**4. In terms of the concepts of the State, the need for the State to produce and provide public goods is accepted in the context of:**

- a) *The Minimal State, Welfare State, and Imperfect State.*
- b) Only the Welfare State.
- c) Only the Minimal State.
- d) Only the Minimal State and Imperfect State.

**5. The “golden rule”, supported in the context of the Financial Interventionism and in “modern” Public Finances, accepts the following situation:**

- a) A budget deficit resulting from current deficit and from the capital deficit.
- b) *A total budget deficit resulting from the capital deficit, and a zero or in surplus current balance.*
- c) Part of current spending is financed with government debt.
- d) A total budget deficit resulting from a current deficit and a zero or in surplus capital balance.

**6. By law, nightclubs need to close at 2am, to prevent excessive noise. This measure fits the following function of the State:**

- a) Distribution.
- b) *Allocation.*
- c) Stabilisation.
- d) Judicial.

**7. Consider a bridge without tolls, where the daily number of vehicles that use it is way below its capacity. In this case, identify the wrong statement:**

- a) Given the underutilisation of the bridge, it is not justifiable to impose a toll.
- b) *Legal and technological reasons do not allow the imposition of a toll.*
- c) The introduction of a toll would an inefficient measure.
- d) In spite of generating a revenue for the State, the introduction of a toll would not be reasonable from an economic perspective.

**8. Which of the following is not a public good?**

- a) National defence.
- b) *Museum.*
- c) Lighthouse.
- d) Public lighting.

**9. A non-profit private association uses a State building to setup an old age care facility for old people, which will not have to support any cost. This is a case of:**

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

**10. Tobacco consumption generates a negative externality (effects on passive smokers) that justifies State intervention. Identify the correct statement:**

- a) The State should not intervene because the externality is incorporated in the market price.
- b) *The State should impose a tobacco tax equal to the value of the external marginal cost.*
- c) The State should introduce a subsidy for passive smokers.
- d) The State should impose a tax equal to value of the social marginal cost.

**11. Identify the reason why basic education is free.**

- a) It is a public good and exclusion is not possible.
- b) *It is a merit good.*
- c) It is a public good without rivalry in consumption.
- d) It is a private good.

**12. Choose the policy measure that improves the social welfare from a Rawlsian perspective:**

- a) Freezing the value of the highest old age pensions.
- b) *Increasing old age pensions for elderly people in a situation of economic need.*
- c) Reduction of the Personal Income Tax rates for the taxpayers in the middle tax brackets income.
- d) Reduction of the Personal Income Tax rates for the taxpayers with the highest income.

**13. In a poor region, the Government makes public transportation free. What are the potential effects of this decision?**

- a) There is no effect in terms of equity and efficiency.
- b) Improves equity and efficiency.
- c) It is neutral from an equity perspective but increases inefficiency due to overconsumption.
- d) *Increases equity but worsens efficiency due to overconsumption.*

**14. Choose the correct statement. The excess burden of taxation:**

- a) It is approximately equal to the difference between the decrease in the consumer surplus and the tax revenue.
- b) *It is approximately equal to the difference between the decrease in the consumer surplus and in the producer surplus, and the tax revenue.*
- c) It is the value of the welfare loss of the consumers resulting from the tax.
- d) It is approximately measured via half of the Harberger triangle.

**15. Which of the following revenues is not an effective revenue of the State:**

- a) *Revenue from the issuance of one-month government debt.*
- b) Revenue from tolls in a highway managed by the State.
- c) Revenue from the sale of a public building of the Ministry of Health.
- d) Revenue from corporate income tax.

**16. According to the benefits principle, a student in a public university:**

- a) Should not pay tuition fees.
- b) *Should pay tuition fees.*
- c) Should receive a subsidy from the State to cover full tuition fees.
- d) Should work to pay the tuition fees.

**17. The increase in the tobacco tax:**

- a) Improves equity and worsens transparency.
- b) *Worsens equity and improves efficiency.*
- c) Worsens efficiency and improves flexibility.
- d) Improves financial efficacy and worsens efficiency.

**18. Fees have the following characteristics:**

- a) Are exclusive revenues of the Ministry of Justice, have a pecuniary nature, and ensure a direct service to the taxpayer.
- b) Are revenues of the State or of other public institution may have a pecuniary nature, and ensure a direct service to the taxpayer.
- c) Are revenues of the State or of other public institution have a pecuniary nature and are coercive for every citizen.
- d) *Are revenues of the State or of other public institution have a pecuniary nature, and ensure a direct service to the taxpayer.*

**19. A tax system that is easy to understand by the taxpayers, and its management is not too expensive, verifies, respectively the following characteristics:**

- a) Equity and low funding cost.
- b) Flexibility and low funding cost.
- c) *Transparency and low funding cost.*
- d) Transparency and flexibility.

**20. When a tax system generates revenues that are adequate to the financing of government spending and minimizes the distortionary effects on the agents' decisions, it verifies, respectively, the following characteristics:**

- a) Financial efficacy and equity.
- b) *Financial efficacy and efficiency.*
- c) Efficiency and transparency.
- d) Financial efficacy and tax efficacy.