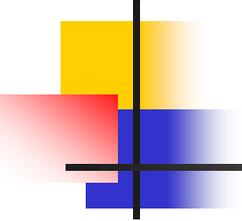


Economics and Public Finance Tutorial 1

- **Topics for discussion:**
 - Normative and positive analysis
 - Normative criteria
 - Efficiency
 - Equity
 - Liberty (negative)
 - Public Sector Functions
 - Allocation
 - Redistribution
 - Stabilization



Bibliography

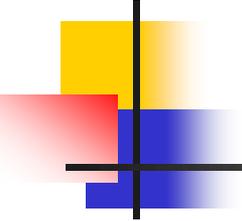
- **Read Previously:**

- ***Slides Lecture 1***

- Stiglitz, J. and Rosenberg, J. Chapter 1

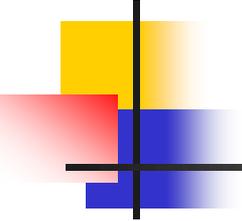
- Richard and Peggy Musgrave, *Public Finance in Theory and Practice*, p. 3-14

- Summary Chapter 1 – Pereira, P.T. e Nunes, *Economia e Finanças Públicas da Teoria à Prática*. Almedina



Topics for discussion - 1

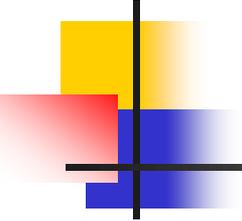
Define normative analysis and positive analysis in economics, and provide an example that illustrates how the two approaches differ.



Topics for discussion- 2

To diminish bank secrecy on personal accounts is a *good* measure on the basis of one normative criterion but a *bad measure* on the basis of another one.

Identify these criteria and, taking into account the tradeoff between them, give your opinion about the desirability (or not) of that policy measure.



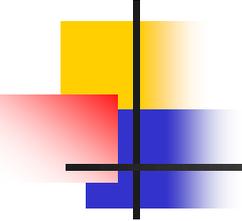
Topics for discussion - 3

Consider **three** public policy measures

- a) The increase in the top marginal personal income tax.
- b) Reduction of the maximum alcoholic threshold for drivers.
- c) Abolition of university fees (*note: in Portugal there are fees for higher education*)

Explain if there is a conflict between two main normative criteria for each of these measures:

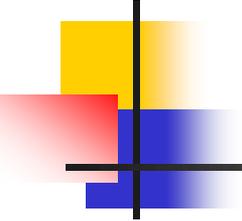
- **Efficiency and equity**
- **Equity and liberty**
- **Efficiency and liberty**



Topics for discussion - 4

Taking into account the role of the public sector according to Richard Musgrave and the relevant normative criteria, justify State intervention in the following cases:

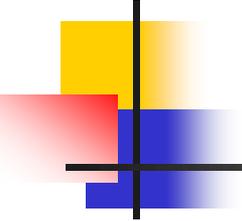
- a) Ban smoking in all enclosed spaces
- b) Mandatory attendance of vocational training for unemployed workers receiving unemployment benefits



Multiple Choice - 1

A difference between normative and positive analysis is:

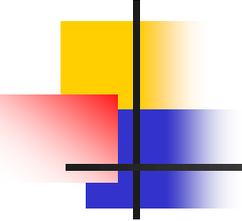
- a) Only normative analysis is relevant to choose between policy options.
- b) Positive analysis deals with facts, therefore cannot be a source of disagreement.
- c) Positive analysis is descriptive while normative analysis provides value judgements based on certain criteria.
- d) Normative analysis is more important than positive analysis.



Multiple Choice - 2

Which of the following statements is a **positive proposition**:

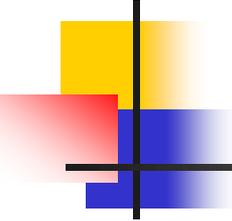
- a) Exports must be promoted with public incentives.
- b) Payments asked to citizens in hospital emergencies are too low.
- c) A contraction in public investment is projected for 2012.
- d) Corporation taxes should be reduced to promote competitiveness.



Multiple Choice - 3

The expansion of the public pre-school network in a given country is an aspect that clearly falls within:

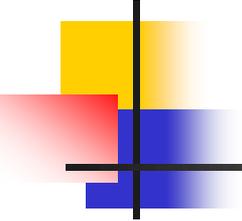
- a) The stabilization function of the public sector.
- b) Both the allocation and stabilization functions of the public sector.
- c) The allocation function of the public sector.
- d) The distribution function of the public sector.



Multiple Choice - 4

The normative criterion of (negative) freedom means:

- a) Each individual must be free to do whatever he/she wants.
- b) Enterprises must be free to do whatever investments they want.
- c) The absence of coercion from a public entity (State) over individual choices.
- d) Choosing between shoes and shirts must not have the interference of taxes.



Multiple Choice - 5

The State's stabilization function is related, among other responsibilities, to:

- a) The regulation of economic activities that generate externalities.
- b) Interventions that aim to ensure a certain level of growth and employment.
- c) Interventions that aim to address social inequalities and promote equality of opportunity.
- d) Fiscal interventions with the purpose of improving the distribution of income in society.