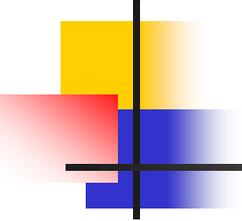


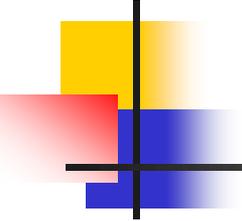
Economics and Public Finance Tutorial 2

- **Topics for discussion:**
 - The Minimal State and classical public finance
 - The Welfare State and Interventionism
 - The Imperfect State and Constitutionalism
 - Modern Public Finance



Bibliography

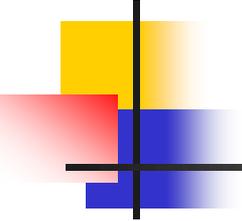
- **Read Previously:**
- **ENGLISH**
 - *Slides Lecture 2*
 - Stiglitz, J. Chapter 1/**Musgrave**, R.
 - Pereira, P. T. and Nunes, Summary Chapter 2,
 - Portuguese:
 - Capítulo 2 – Economia e Finanças Públicas



Topics for discussion - 1

Make a comparative analysis of the status that the **markets** have in two different concepts of the role of the public sector:

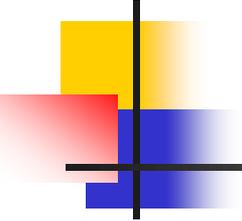
- i) **the Minimal State.**
- ii) **the Welfare State.**



Topics for discussion - 2

Within the scope of the critical conception of the **Imperfect State**, identify and explain two government failures with implications for the long-term sustainability of Public Finances.

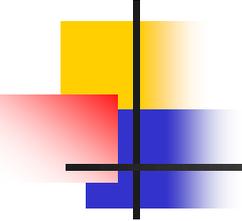
Give an example.



Topics for discussion - 3

Taking into account the three main functions of the State mentioned by Richard Musgrave:

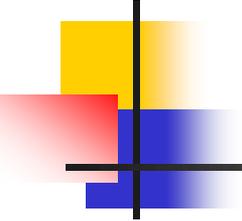
- a) Identify which one better describes the idea of Welfare State, specifying succinctly its theoretical underpinnings.
- b) Give two examples of fiscal instruments that could be clearly included in that function.



Topics for discussion - 4

Which **policy measure** fits best each type of approach to public finances (the classical approach to public finance; the welfare state approach (interventionism); and constitutionalism):

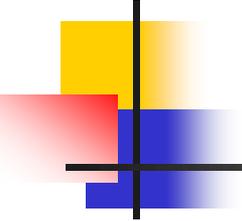
- i)** Supplementary income for old people.
- ii)** Issue of Debt to finance public spending.
- iii)** Rules (The Maastricht criteria) on government deficit and debt.
- iv)** Public spending essentially limited to the allocation function.
- v)** Public expenditure should be financed mainly through taxes.



Multiple Choice - 1

Say which of the following statements is false:

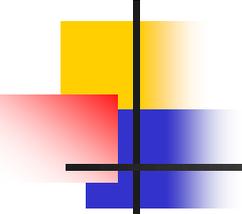
- a) Those who consider that the State is *imperfect* argue for limitations to State activity.
- b) Classical economists consider that taxes must be low.
- c) The defenders of the *welfare state* are not concerned with the allocation function.
- d) Supporters of the *welfare state* argue that the redistribution branch is an important function of government.



Multiple Choice - 2

John Rawls considers that the improvement of social well-being is *necessarily* verified when:

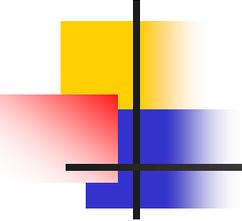
- a) The average income of society increases.
- b) Inequality in income distribution decreases.
- c) The well-being of those who are worse off in society increases.
- d) The median income of society increases.



Multiple Choice - 3

The definition and legal protection of property rights, and the regulation of contracts, within the framework of an adequate functioning of the justice system, is accepted:

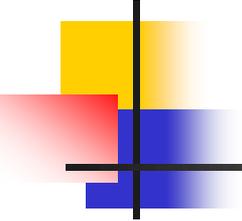
- a) Only by the Welfare State.
- b) Only by the Minimal State.
- c) By the Minimal State, Welfare State, and Imperfect State.
- d) Only by the Minimal State and Imperfect State.



Multiple Choice - 4

The possibility that some decisions that affect the public expenditure of a country lead to intertemporal inconsistency is associated with the concept of:

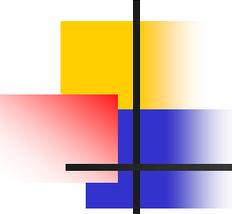
- a) Imperfect state.
- b) Minimal State.
- c) Welfare State.
- d) Peripheral State.



Multiple Choice - 5

The idea that the State should reduce the economic insecurity of individuals, providing them with support in the face of social risks (old age, unemployment, illness, disability,...), is part of the conception of:

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



Multiple Choice - 6

Say which of the following statements is **false**:

- a) Supporters of the Minimal State argue that the role of the State is important to ensure the existence of institutions necessary for the proper functioning of markets.
- b) Defenders of the Welfare State consider the distribution function to be the most important function of the public sector.
- c) Defenders of the Imperfect State consider that, without constitutional limitations, the weight of the State in the economy can increase too without checks and balances.
- d) Supporters of the Minimum State argue that the State plays an important role in macroeconomic stabilization.