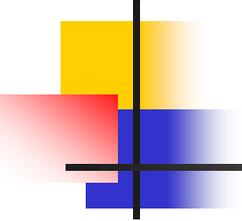


Economics and Public Finance

Tutorial 3

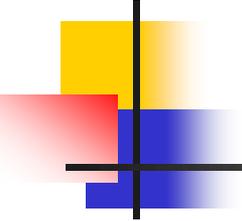
Topics for discussion:

- Conclusion: Modern Public Finance (Lecture 3)
 - Theory of Public Goods (Lecture 4)
 - Characteristics of goods: rivalry and exclusion
 - Pure public goods versus private goods
 - Public production versus public provision
 - Tax prices



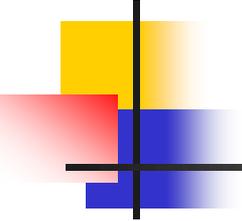
Bibliography

- Readings:
 - ***See Slides Lectures 3 and 4***
 - Stiglitz, J. Rosengard (2015). ***Economics of the Public Sector***, 4th ed. W. W. Norton Company, Inc. **chapter 5** Public Goods and Public provided private goods, p. 102-109 and 116-121



Topics for discussion - 1

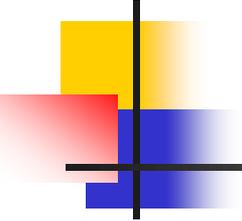
Taking the European reality as a reference, briefly present the main characteristics of “Modern” Public Finance, common to the EU Member States.



Topics for discussion – 2

Comment the following statement:

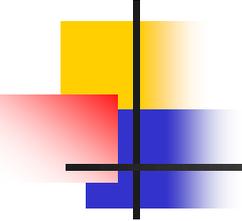
"The ability to exclude individuals from consumption of goods has a technological dimension, but also a legal one. The rationale of exclusion has an economic dimension. "



Topics for discussion - 3

Comment the following statement:

"In theory, we can devise what is the optimal provision of public goods. In practice we cannot "



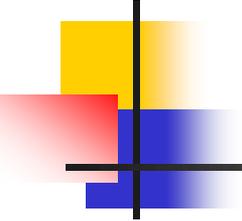
Topics for discussion - 4

How do you assess the potential conflict between efficiency and equity in the following situations:

- a) Private production and public provision of water for household consumption?

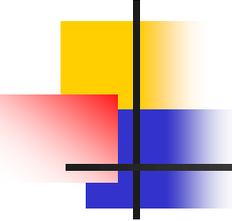
- b) public production and private provision of emergency services in hospitals?

Topics for discussion – 5



Taking into account the concept of “tax price” clarify the following cases:

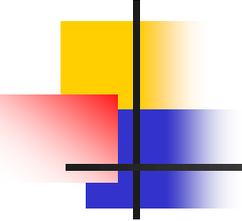
- a) If one submarine is bought by the Portuguese Ministry of Defence, what is the meaning of the submarine “tax prices” for Portuguese citizens?
- b) One football stadium is built and financed for by one municipality, what is the meaning of the stadium “tax prices” for the residents of the municipality?
- c) Describe the following tax systems: i) uniform taxation (a lump sum tax) ii) proportional taxation or iii) progressive taxation?
- d) Which citizens pay no “tax prices” for public goods?



Multiple Choice - 1

A Parish Council (freguesia) leased to a private firm the management of social facilities (day care). Since users do not bear any cost, this is a case of:

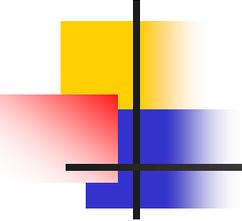
- a) Public provision and public production.
- b) Private provision and private production.
- c) Public provision and private production.
- d) Private provision and public production.



Multiple Choice - 2

Indicate which statement is false:

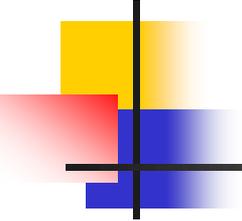
- a) Public goods exhibit rivalry in consumption.
- b) Private goods exhibit rivalry in consumption.
- c) Public goods may exhibit exclusion in consumption.
- d) Private goods exhibit exclusion in consumption.



Multiple Choice - 3

If a private good is provided at a zero price:

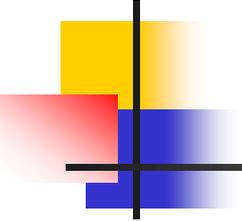
- a) There will be consumption up to the point where marginal benefits equal the marginal cost.
- b) There will be excessive consumption until marginal benefits become null.
- c) It becomes a public good because everyone can consume the amount they want and no one is excluded.
- d) all consume the same amount of the good.



Multiple Choice - 4

Which statement is false in view of the nature of public goods and private goods:

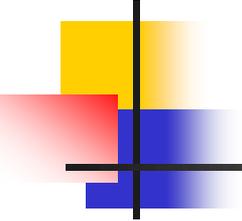
- a) In the markets of private goods agents adjust quantities to the market price.
- b) In the presence of public goods agents may consume the same amount at different tax prices.
- c) In the markets of private goods agents reveal their preferences, but this does not happen for public goods.
- d) Regarding public goods it is never possible to exclude agents from consumption.



Multiple Choice - 5

The inefficiency associated with the public provision of a private good is greater:

- a) the greater is the elasticity of demand
- b) the smaller is the price of goods
- c) the smaller is the elasticity of supply
- d) the greater is the degree of rivalry in consumption



Multiple Choice - 6

The private provision of a pure public good is always inefficient because:

- a) exclusion is not possible.
- b) The rationing of consumption does not translate into social benefits.
- c) The public provision is more efficient.
- d) The private sector is more efficient than the public sector