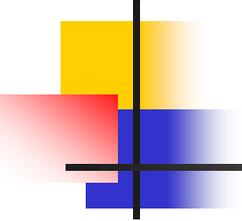


Economics and Public Finance

Tutorial 4

Topics for discussion:

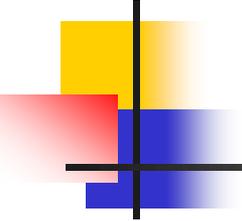
- Externalities and Mixed Goods (Lecture 5)
- Spending for equity reasons (Lecture 6).
 - Welfare State functions (*utilitarianism and rawlsianism*).
 - Optimal income distribution.
 - Potential conflict between efficiency and equity.



Bibliography

- **Read Previously:**
 - ***See references in Slides Lectures 5 and 6***

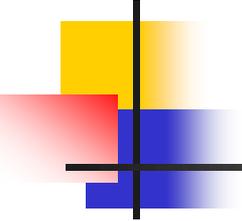
Summary Chapter 3 Pereira et al.



Topics for discussion - 1

Consider the vaccine for the flue in a competitive market with private provision:

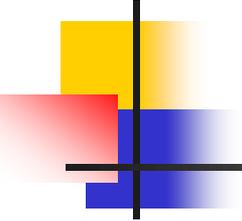
- a) Explain the positive externality associated with it.
- b) Represent graphically the difference between the equilibrium and the optimal level of vaccine use.
- c) What is the fiscal instrument to achieve the optimal level of vaccination.



Topics for discussion - 2

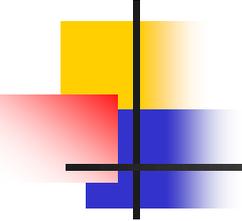
Distinguish *utilitarianism* and *rawlsianism* and clarify, for each theory, what is the change in social welfare from the following two measures:

- i)** Introduction of the minimum income benefit, in a country where it was inexistent before.
- ii)** Redistribution of income from a high income class to a medium income class.



Topics for discussion - 3

1. Explain the *potential conflict* between efficiency and equity in public policies.
2. Present *two examples* of such conflict.

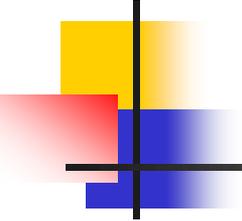


Topics for discussion - 4

Utilitarianism and *rawlsianism* are two approaches to a normative analysis of social welfare.

Taking the concept of the Social Indifference Curve (CIS) as a reference, in each of the analyses, show that it is possible to improve well-being under the Rawls criterion without any change in well-being for the utilitarian criterion?

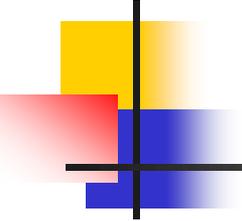
Justify, supporting your reasoning graphically and defining the relevant concepts.



Topics for discussion - 5

Comment the following statement presenting arguments that support this view and the contrary view:

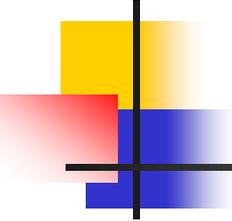
“the compulsory nature of merit goods violates consumer sovereignty and freedom of choice. Therefore, this is unacceptable and undesirable”.



Multiple Choice - 1

The existence of a negative externality causes a divergence between:

- a) Private marginal benefit and social marginal cost.
- b) Private marginal cost and social marginal cost.
- c) Marginal social benefit and marginal social cost.
- d) Private marginal cost and private marginal benefit.



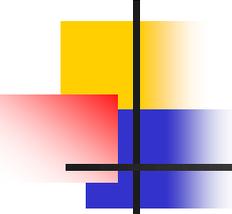
Multiple Choice - 2

Consider a society with 4 homogeneous groups of individuals A, B, C, D, with income Y_i : $Y_{a_0} > Y_{b_0} > Y_{c_0} > Y_{d_0}$ at period t_0 . Welfare depends solely on income and all individuals have equal utility functions.

At period t_1 the income of those groups is $Y_{a_1} = Y_{b_1} > Y_{c_1} = Y_{d_1} > Y_{d_0}$.

It is possible to say, *unequivocally*, that in t_1 :

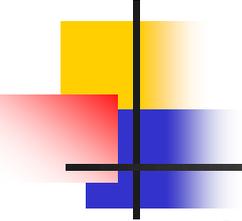
- a) Welfare increased from an utilitarian perspective.
- b) Welfare increased from rawlsian perspective.
- c) Welfare did not change from a rawlsian perspective.
- d) Welfare did not change from a utilitarian perspective.



Multiple Choice - 3

Assuming that the utility of individuals depends exclusively on their income, identify the measure that increases social welfare both for utilitarians and for rawlsians:

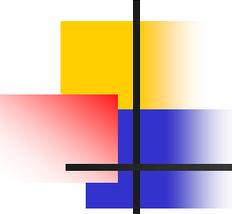
- a) Reduction of the VAT rate for restaurants from 23% to 13%.
- b) Increase in social benefits for households in poverty, without the need to increase taxes.
- c) Reduction of tuition fees in public higher education.
- d) Increase of all old-age pensions by 2%.



Multiple Choice - 4

The conflict between efficiency and equity is translated into the fact that:

- a) A Pareto improvement is always socially unfair.
- b) Income redistribution can distort individual behaviour, e.g. lowering incentives for work.
- c) Efficiency and equity are necessarily contradictory objectives.
- d) Those who prefer more equity do not value efficiency.



Multiple Choice - 5

Consider a society with two homogeneous groups A and B, which will be affected by a given public policy. Tell which true statement completes the following sentence: "When, as a result of this public policy, the increase in the social well-being of group A is greater than the reduction in the well-being of group B, then necessarily...":

- a) It improves social well-being from a utilitarian perspective.
- b) It improves social well-being from a Rawlsian perspective.
- c) Social well-being is maintained in the Rawlsian perspective.
- d) It improves social welfare from the utilitarian perspective only if the increase in income in group A is greater than the decrease in income in group B.