UNIVERSITY COLLEGE LONDON

EXAMINATION FOR INTERNAL STUDENTS

MODULE CODE : **ECON7005**

ASSESSMENT : **ECON7005A**
PATTERN

MODULE NAME : **Economics of the Public Sector**

DATE : **12 May 2016**

TIME : **10:00 am**

TIME ALLOWED : **2 hours**

This paper is suitable for candidates who attended classes for this module in the following academic year(s):

2015/16

ECON7005 ECONOMICS OF THE PUBLIC SECTOR

TIME ALLOWANCE: 2 HOURS

Answer FOUR questions from Part A and ONE question from Part B

Questions in Part A carry 12.5 per cent of the total mark each and questions in Part B carry 50 per cent of the total mark each.

In cases where a student answers more questions than requested by the examination rubric, the policy of the Economics Department is that the student's first set of answers up to the required number will be the ones that count (not the best answers). All remaining answers will be ignored.

PART A

Answer FOUR questions from this section.

A1   Define the "Samuelson condition" for the optimal provision of a public good, and explain how it relates to the characteristics which define a public good. What information would a government agency need to implement the Samuelson condition, and why might this in practice be difficult to obtain?

A2   Distinguish clearly between the concepts of "poverty" and "inequality", illustrating your answer with examples of ways in which they can be measured.

A3   Distinguish clearly between the concepts of the "formal" and "effective" incidence of a tax. What is the economic mechanism by which the effective incidence of a tax on the sale of goods and services may differ from formal incidence? What is distinctive about the economic incidence of a tax on land?

A4   Explain what is meant by the Coase Theorem. How is it relevant to defining the scope of regulatory intervention in the operation of the market economy?

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A5   Some studies of the distributional impact of public spending and taxation have classified households into rich and poor on the basis of decile groups of household *expenditure* rather than decile groups of household *income*. Explain the logic behind this approach, and the reason it might lead to different conclusions.

A6   Explain what is meant by Baumol's Law. Does Baumol's Law mean that the share of GDP devoted to public expenditure would increase over time, even if the quantity of public goods and services provided remains constant? Explain your answer.

PART B

Answer ONE question from this section

B1   Explain what is meant by "club goods". In what respects are club goods similar to "public goods", and in what respects do they differ? Explain how, if the efficient club size is small, a competitive market can supply club goods to the efficient level. What problems arise if the efficient club size is large relative to the population?

B2   Explain Arrow's Impossibility Theorem, and its significance. Set out criteria for judging the efficiency of a voting procedure for public decision-making where decision-makers face a range of different options, and discuss the relative strengths and weaknesses of different possible voting mechanisms in this context.

B3   Could public assistance for unemployed workers be replaced by a system of private insurance against the risks of income loss through unemployment? What would be the consequences for economic efficiency and equity of such a policy reform? Compare and contrast two possible forms which such insurance might take, one in which workers can purchase insurance on an individual basis from private insurance companies, and the other in which firms are required to take out insurance covering their workforce, to be financed by a fixed percentage levy on their wage bill.

B4   In what ways can "welfare state" support to families with children be targeted, so as to limit total expenditure, while providing assistance to those in greatest need of support? What are the economic issues involved in such targeting, and what problems can arise?