

YORK UNIVERSITY
Faculty of Arts
Final Examination
April 16, 1997
Economics 4080.03MW : Public Finance II
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time=2 hours

The exam contains two sections, *A* and *B*. Section *A* is worth 40 % of the marks, section *B* 60 %. Note that there is some choice in each section.

A : 40 % (5 % per question)

Explain **briefly** the significance for the economics of public expenditure of any **8** of the following 10 terms.

1. pure public goods
2. Lindahl prices
3. single-peaked preferences
4. bureaucracy
5. common property resources
6. matching grants
7. Lorenz curve
8. adverse selection
9. established programmes financing
10. local public goods

B : 60 % (15 % per question)

Answer any 4 of the following 8 questions.

1. Show (using diagrams, words, or mathematics) that the sum of people's marginal rates of substitution between a pure public good and a pure private good should equal the marginal rate of transformation if the allocation is efficient.

2. Compare the level of spending on a public good in two cities : city 1, where income is distributed equally, and city 2, which has the same average income as city 1, but which has a "skewed" income distribution (i.e. many people whose income is a little below the average, and a few people whose income is a great deal above the average income).

3. If polluting firms can vary both the level of output they produce, and the type of technology they use to produce the output, will a tax on the firm's level of output lead to an efficient level of pollution? Explain briefly.

4. Compare the effects on a person's expenditure on vegetables of the following three programmes :

i a cash grant to the person of \$100

ii a grant to the person of \$100, which must be spent on vegetables

iii a "matching" programme, which gives the person \$1 for every dollar she spends on vegetables (assume that this third programme will wind up costing the government \$100 per person)

5. What can be said about the distributional impact of a public investment project which has the following effect on the average incomes of people? The table below indicates the average income of people in the bottom quintile, second-from-the-bottom,...up to the top quintile in the income distribution, before and after the project. (The income is measured in thousands of dollars per year per person ; "before" is the original income distribution ; "after" is the income distribution after the project has been implemented.)

quintile	1	2	3	4	5
before	20	25	30	45	80
after	10	25	35	45	85

6. How might an unfunded (i.e. “pay-as-you-go”) public pension scheme affect aggregate saving?

7. Describe briefly the programmes of grants from the federal government to the provinces in the 1990's.

8. Discuss briefly the efficiency of transferring the responsibility for welfare payments from the provincial governments to individual municipalities.

the end