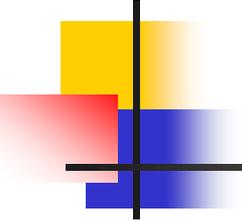


# Economics and Public Finance Tutorial 1

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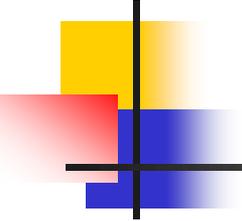
- **Topics for discussion:**
  - Normative and positive analysis
  - Normative criteria
    - Efficiency
    - Equity
    - Liberty (negative)
  - Public Sector Functions
    - Allocation
    - Redistribution
    - Stabilization



# Bibliography

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- **Read Previously:**
  - ***Slides Lecture T2***
  - Stiliglitz, J. Chapter 1

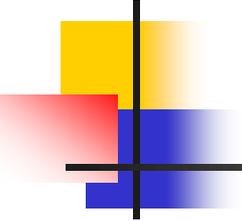


# Topics for discussion - 1

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“The normative analysis in economics assumes the previous existence of some positive analysis”.

Coment this statement, giving two illustrative examples.

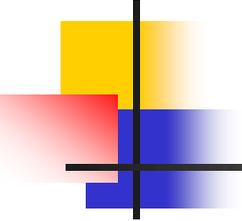


## Topics for discussion - 2

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Taking into account the role of the public sector according to Richard Musgrave and the relevant normative criteria, justify State intervention in the following cases:

- a) Free and compulsory vaccination program.
- b) Regulation of industry pollutants including monetary fines.
- c) Incentives for private investment to promote job creation.

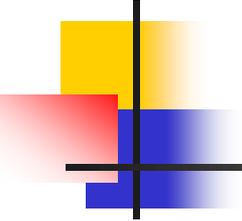


## Topics for discussion - 3

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Give an example of **three** public policy measures where there is a conflict between normative criteria:

- **Efficiency and equity**
- **Equity and liberty**
- **Efficiency and liberty**

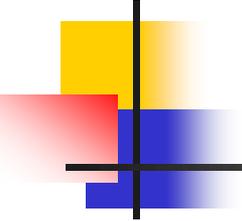


## Topics for discussion- 4

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To diminish bank secrecy on personal accounts is a positive measure according to a normative criteria but negative according to another.

Identify these criteria and, taking into account the tradeoff between them, give your opinion about the desirability (or not) of that policy measure.

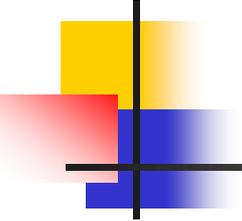


# Multiple Choice - 1

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A difference between normative and positive analysis is:

- a) Only normative analysis is relevant to choose between policy options.
- b) Positive analysis deals with facts, therefore cannot be a source of disagreement.
- c) Positive analysis is descriptive while normative analysis is more based on evaluation.
- d) Normative analysis is more important than positive analysis.

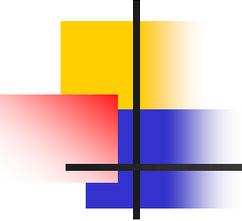


## Multiple Choice - 2

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Which of the following statements is a **positive proposition**:

- a) Exports must be promoted with public incentives.
- b) Payments asked to citizens in hospital emergencies are low.
- c) A contraction in public investment is projected for 2012.
- d) Corporation taxes should be reduced to promote competitiveness.

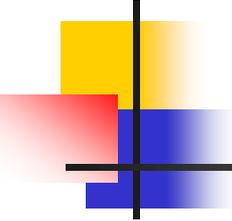


## Multiple Choice - 3

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The efficiency criteria (Pareto), associated with the public sector allocation role has to do with:

- a) To produce goods at the lowest cost.
- b) Be able to achieve objectives.
- c) For the same resources attain maximum output.
- d) To allocate resources optimally according to economic agents' preferences.

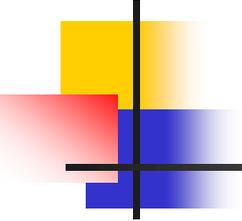


## Multiple Choice - 4

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The normative criterion of (negative) freedom means:

- a) Each individual must be free to do whatever he/she wants.
- b) Enterprises must be free to do whatever investments they want.
- c) The absence of coercion from a public entity (State) over individual choices.
- d) Choosing between shoes and shirts must not have the interference of taxes.



## Multiple Choice - 5

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Which of the following statements is *true* :

- a) The stabilization function consist of just keeping inflation controlled and stable.
- b) The redistribution function encompasses income redistribution policies and promotes equality of opportunities for the citizens.
- c) The stabilization funtion is key in promoting the equity of the State public policies.
- d) The allocation function is solely dedicated to correct externalities int production and in consumption.