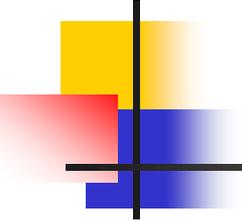


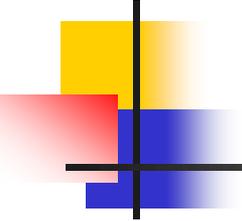
Economics and Public Finance Tutorial 2

- **Topics for discussion:**
 - Classical economists and the Minimal State
 - The Welfare State and Interventionism
 - The Imperfect State and Constitutionalism
 - “Modern” Public Finance



Bibliography

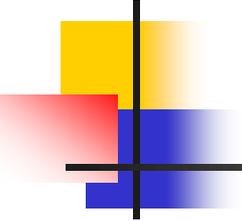
- **Read Previously:**
 - ***Slides Lecture T3 and T4***
 - Stiliglitz, J. Chapter 1



Topics for discussion - 1

Which policy measure fits best each type of approach to public finances (the classical approach to public finance; the welfare state approach (interventionism); and constitutionalism):

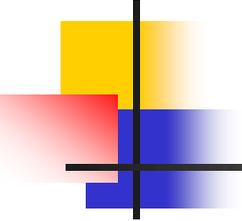
- i)** Minimum Income.
- ii)** Budget deficit to finance public spending.
- iii)** The Maastricht criteria on government deficit and debt.
- iv)** The budget solely with the allocation function.
- v)** Public spending essentially financed via taxes.
- vi)** Public expenditure-to-GDP ratio of 20%.



Topics for discussion - 2

Make a comparative analysis of the status that the **markets** have in two different concept of the role of the public sector:

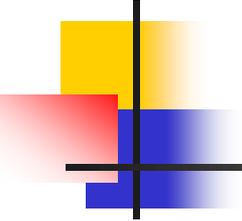
- i) **the Minimal State.**
- ii) **the Welfare State.**



Topics for discussion - 3

The fact that many times politicians raise taxes after being elected, and cut taxes before elections is due to electoralism and does not stem from the need of appropriate economic policy.

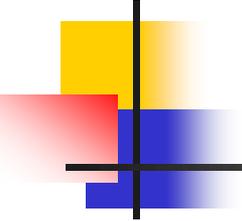
Clarify the statement and which authors attributed prominence to the study of such behaviour.



Topics for discussion - 4

Taking into account the three main functions of the State mentioned by Musgrave:

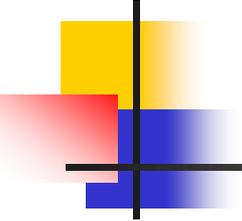
- a) Identify which one better describes the idea of Welfare State, specifying succinctly its theoretical underpinnings.
- b) Give four examples of fiscal instruments that could be clearly included in that function.



Topics for discussion - 5

Explain why some authors argue for the existence of an Imperfect State.

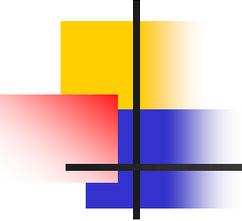
Characterize **public finances** in this context.



Multiple Choice - 1

Say which of the following statements is false:

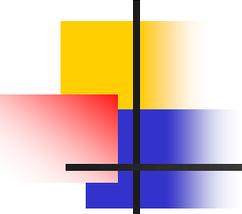
- a) Classical economists consider that taxes must be low.
- b) Supporters *of* the *welfare state* argue that the redistribution branch is an important function of government.
- c) Those who consider that the State is *imperfect* argue for limitations to State activity.
- d) The defenders of the welfare state are not concerned with the allocation function.



Multiple Choice - 2

The notion that the state should guarantee everyone a minimum income irrespective of the value of their property is associated with:

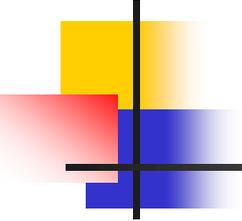
- a) The minimal State.
- b) State paternalism.
- c) The welfare state.
- d) The imperfect state.



Multiple Choice - 3

Say each statement is true. *Classical economists* consider that:

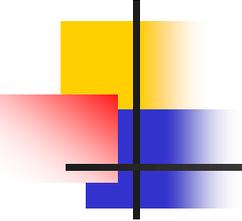
- a) Public spending should be financed through the issue of money or via the issuance of government debt.
- b) The share of the State in the economy must be significant, to answer the financing needs of the allocation function.
- c) Public spending must be financed essentially via taxes.
- d) Budget deficits should be used to finance public spending.



Multiple Choice - 4

“Modern” public finances, embodied in the practice of EU countries are a mix of:

- a) Classic and interventionism.
- b) Liberal and constitutionalism.
- c) Classic, interventionism and constitutionalism.
- d) Interventionism and constitutionalism.



Multiple Choice - 5

Classical economists (Smith, Ricardo, John Stuart Mill) consider that the essential function of the State is:

- a) Allocation.
- b) Redistribution of income.
- c) Stabilisation.
- d) Promoting equal opportunities.