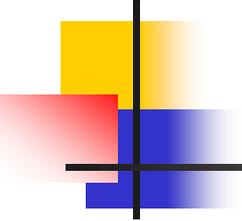# Economics and Public Finance Tutorial 4
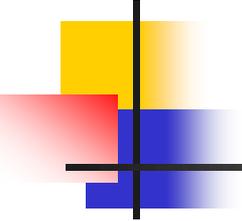
Topics for discussion:

- Spending for equity reasons.
- Welfare State functions (*utilitarianism and rawlsianism*).
- Optimal income distribution.
- Potential conflict between efficiency and equity.

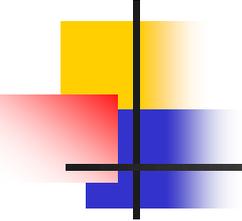# Bibliography

- **Read Previously:**
  - *Slides* **Lecture T7**

Topics for discussion - 1

Distinguish *utilitarianism* and *rawlsianism* and clarify, for each theory, which is the change in social welfare from the following two measures:
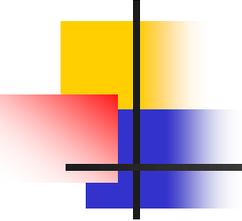
i) Introduction of the minimum income benefit, in a country where it was inexistent before.

ii) Redistribution of income from a high income class to a medium income class.
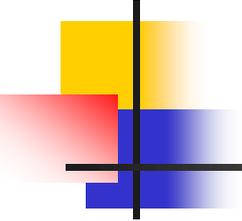
Topics for discussion - 2

1. Explain the *potential conflict* between efficiency and equity in public policies.

2. Present *two examples* of such conflict.

Topics for discussion - 3

1. Depict in the same chart the utilitarian and the rawlsian social indifference curves, and explain its meaning.

2. Show how it is possible to have an increase in welfare in the utilitarian view, without an increase of welfare in the rawlsian view.
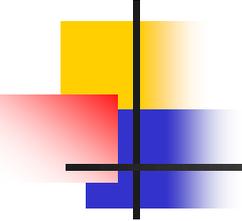
Topics for discussion - 4

Define the concept of *merit good*.

Present two examples.

Multiple Choice - 1

The allocation of resources in the economy is **socially optimal** if:

a) It is Pareto efficient.

b) It is the most fair solution within the efficient allocations.

c) It is not possible to increase the sum of the welfare of the members of society.

d) It is not possible to improve the welfare of the worst-off members in society.

Multiple Choice - 2

Movements along a social indifference curve show:

a) Social welfare changes when the utility of an individual is constant.

b) The maximum welfare of a group given the welfare of another group.

c) That society is indifferent between more and less aggregate social welfare.

d) That society is indifferent between the different combinations of welfare of several groups.
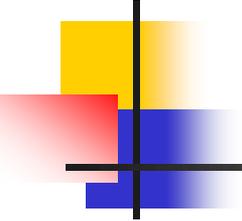
Multiple Choice - 3

Assuming that individuals are different, their utility only depends on income, marginal utility is decreasing, and there are no redistribution costs, then:

a) Contrary to rawlsianism, utilitarianism does not weigh up the gains and losses of social welfare of different groups.

b) Contrary to utilitarianism, rawlsianism weighs up the gains and losses of social welfare of different groups.

c) Rawlsianism defends a stronger redistribution than utilitarianism, by favouring the position of a given group in society.

d) Utilitarianism and rawlsianism defend the same redistributive policies.

Multiple Choice - 4

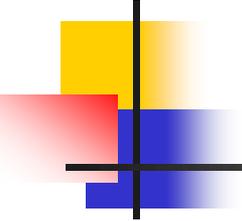Consider a society with 4 homogeneous groups of individuals A, B, C, D, with income Yi: $Ya_0 > Yb_0 > Yc_0 > Yd_0$ at period t_0.

At period t_1 the income of those groups is $Ya_1 = Yb_1 > Yc_1 = Yd_1 > Yd_0$.

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.
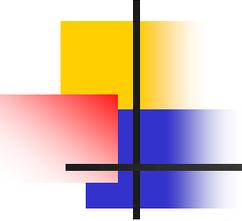**d)** Welfare did not change from a utilitarian perspective.

Multiple Choice - 5

Consider that a private good is provided freely for equity reasons. The conflict between efficiency and equity is higher:

a) The higher the elasticity of demand.

b) The higher the level of exclusion.

c) The lower the elasticity of demand.

d) The higher the rivalry in consumption.

Multiple Choice - 6

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

a) A Pareto improvement is always socially unfair.

b) Social justice does not go together with efficiency.

c) Sometimes, to improve equity, it is necessary to have efficiency costs.

d) Any efficient resource allocation is unfair.