



Economics and Public Finance

Tutorial 5

- Topics for discussion:
 - Types of revenues
 - Meaning of tax
 - Desirable characteristics of a tax system
 - Inefficiency and "excess burden" of tax
 - Horizontal and vertical equity
 - Taxation principles
 - Legal and economic incidence of tax (introduction)



Bibliography

Readings

- **Stiglitz, Joseph, *Economics of the Public Sector*** (3rd ed.)
 - Five desirable characteristics of any tax system, pp. 456-475.
 - The deadweight loss of taxation, pp. 518-521; 524-532.
 - pp. 468-473 (taxes and inefficiency); pp. 468-475 (taxes and equity).
- **Slides lectures 8 and 9 and 10** (tax incidence).



Topics for discussion - 1

- a) Distinguish between taxes and fees.
- b) To which kind of these two public revenues is the benefits principle better applied?



Topics for discussion - 2

- a) What is meant by "excess burden" of a tax?
- b) Are there some taxes that do not generate inefficiencies?
- c) In the case of the personal income tax, if its progressivity increases, how does that impinge on efficiency?



Topics for discussion - 3

Considering the desirable characteristics of a tax system:

- a) Make a brief distinction between efficiency and financial effectiveness.
- b) From an abstract perspective, when is it possible to say that a tax system is fair or equitable?



Multiple Choice - 1

Say which of the following types of income are not *effective* revenues:

- a) Income tax revenue.
- b) Revenue from fines.
- c) Revenue from sales of public real estate.
- d) Revenue from issuing government debt.



Multiple Choice - 2

Say which of the following types of income are not coercive:

- a) Taxes.
- b) Fees.
- c) Contributions to social security.
- d) Fines and penalties.



Multiple Choice - 3

The polluter pays principle is an example of:

- a) The ability to pay principle.
- b) Principle of tax system effectiveness.
- c) The benefits principle.
- d) Principle of equality vis-à-vis the law.



Multiple Choice - 4

Tax rules should be stable and easily understood by taxpayers. This feature of the tax system is called:

- a) Flexibility.
- b) Transparency.
- c) Low administrative costs.
- d) Financial effectiveness.



Multiple Choice - 5

Which of the following statements does not fulfil the criteria of horizontal or vertical equity:

- a) Who has more contributive ability should pay more taxes.
- b) Who has a similar income must pay a similar income tax.
- c) Who has higher benefits from public spending should pay more taxes.
- d) Who has less income but higher benefits from public spending, should pay more taxes.



Multiple Choice - 6

According to the benefits principle, hospital emergencies should be paid by:

- a) All users of the National Health System.
- b) Users of emergencies.
- c) Social Security contributions.
- d) Taxes.