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UNIVERSITY OF LONDON

279 0018 ZB

BSc degrees and Diplomas for Graduates in Economics, Management, Finance and the Social Sciences, the Diploma in Economics and Access Route for Students in the External Programme

Public Sector Economics

Wednesday, 7 June 2006 : 10.00am to 1.00pm

Candidates should answer **FOUR** of the following **TWELVE** questions. All questions carry equal marks.

PLEASE TURN OVER

1. Would a Rawlsian ever oppose the redistribution of income if the existing allocation was unequal? Ensure that your answer is related to the Rawlsian social welfare function, and that you address the role of utility comparability.
2. Why is it efficient to tax necessities? Explain why the taxation of necessities does not provide the basis for an equitable system of commodity taxation. What factors should guide equitable taxation?
3. Describe how a system of Pigouvian taxes can resolve externality problems. Will such taxes work if your country is affected by pollution produced by industrial activity in a neighbouring country?
4. Does the development model of government expenditure explain the growth of government over the past 100 years? Does it explain the changes that have occurred in government expenditure in the past 20 years? Are there other models that provide a better explanation of the evidence?
5. Demonstrate why high fixed costs of production can lead to natural monopoly. Using examples, explain the best policy for regulating natural monopoly.
6. Derive the Samuelson rule for the efficient provision of a public good. Explain why the Samuelson rule will not be achieved without government intervention. What policy should the government adopt to ensure efficient provision of a public good? Why should it adopt this policy?
7. Explain why the income elasticity of labour supply may be different between married and unmarried females, and between males and females. Does the empirical evidence agree with the theory? What implications does the evidence have for tax policy?
8. Discuss the consequences of adverse selection for the car insurance market. Is government intervention justified?
9. State Arrow's impossibility theorem. Given this theorem, how is it possible for us to make social choices?
10. Is health care a public good or a private good? Explain your answer. Discuss the arguments in favour of, and against, the public financing of health care.
11. 'Taxing corporations is an inefficient way of taxing individuals.' Explain this statement, and analyze its implications for tax policy.
12. Show how a Pareto efficient allocation can be decentralized. Explain the role of private information in limiting the policy relevance of decentralization through lump-sum taxation.

END OF PAPER