

Final Exam ECON 104

RULES: No notes or other source materials are permitted. All such items must remain on the floor. You may use only: pens, pencils, rulers, erasers, calculators and watches. Calculators are not required, and calculators with alphanumeric memories are not permitted. Approximate calculations are fine—just write down your calculation. Be sure to carefully write down all assumptions that you use to answer the question.

Write your NAME and SECTION NUMBER (or Tutorial Leader) on the front page of your exam booklet. These are short-answer questions. Bullet points are fine.

No looking, no copying, no cheating. All such behaviour will result in a zero score for the exam.

Section I: Multiple Choice (2 points each, total of 10 points)

1. A. Saez, Slemrod and Giertz survey the many papers which estimate the elasticity of taxable income with respect to tax rates (ETI) and find that the ETI is probably between 0.12 and 0.25. Assume that the ETI is 0.2, and consider a 10 percentage point increase in the income tax rate. This would result in:
 - a. A 0.2 % decrease in the amount of taxable income reported to government;
 - b. A 2.0% decrease in the amount of taxable income reported to government; or
 - c. A 20% decrease in the amount of taxable income reported to government.
- B. A "Pareto Improvement" is
 - a. A situation in which it is impossible to make someone better off without making someone else worse off;
 - b. A change which makes someone better off without making someone else worse off; or
 - c. A change which brings everyone closer to the same chance for success.
- C. The government sector as a fraction of GDP has grown over the past century. How much bigger that fraction now compared to 100 years ago?
 - a. About twice as big;
 - b. About 5 times as big; or
 - c. More than 10 times as big.
- D. In the USA, public spending on health care as a fraction of GDP is
 - a. Less than half that of Canada;
 - b. About the same as that of Canada; or
 - c. More than twice that of Canada.
- E. The "veil of ignorance" is a thought experiment in which one:
 - a. chooses what kind of society in which one wants to live without knowledge of what role they play (or of who they are) in that society;
 - b. imagines the decision faced by an insurance provider who does not know the true risks of an insurance purchaser; or
 - c. has to decide whether or not to buy a product without knowing its quality or characteristics.

Short Answer (5 points each; 4-6 sentences is enough)

2. What is an externality? Give an example. How can the power of the state allow us to correct this externality? Why can't a firm solve this externality problem? (Note: use the same externality for all parts.)
3. What is a hidden action problem? Give an example. How can the power of the state allow us to correct this hidden action problem? Why can't a firm solve this hidden action problem? (Note: use the same hidden action problem for all parts.)
4. Why should we have employment insurance? Why not just let people save up for their anticipated periods of unemployment?
5. Why is K-12 education provided for everyone for free by government? Should it be? (Use tools developed in this course to answer this question. Be balanced and reasoned in your answer.)
6. Does health insurance itself represent a form of government redistribution? Is it progressive redistribution?
7. There is only one kind of tap water to buy in Vancouver. Is this social insurance? (Define social insurance and check to see if tap water is social insurance.)
8. Why is there so much homelessness in Vancouver compared to 30 years ago? Is homelessness different from poverty? How so? What solutions are there to homelessness?
9. How does Statistics Canada measure poverty (that is, low income)? What can and/or should we do about poverty?
10. What is the "New Deal"? What is the "Great Compression"? Why are they important? What can the occupy movement learn from the Great Compression?
11. What are the consequences of the absence of a termination mechanism like bankruptcy in the government sector? Might the same problem be relevant in some private sector environments? If so, why, and give examples; if not, why not.
12. Suppose that there is a vaccine for a highly infectious disease. Should people be forced to take the vaccine? Why or why not? (Use tools developed in this course to answer this question. Be balanced and reasoned in your answer.)