MASTER 1 in ECONOMICS
MASTER 1 ECONOMIE ET DROIT

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Public economics / code : M1S24

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Lundi 1ᵉʳ juillet 2013

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↪ durée conseillée pour traiter **ce** sujet : 1 heure
↪ **ATTENTION** : le nom de la matière et son code doivent être **IMPERATIVEMENT** recopiés sur la copie d'examen

Instructions

- Please use the answer sheets that are provided.

- For each question there is one and only one correct answer.

- All questions are worth 1 point except those marked with a " * " which are worth 2 points.

Questions

1. Firm 1 produces output x with a cost function $c_1(x) = x^2 + 10$. Firm 2 produces output y with a cost function $c_2(y, x) = y^2 + 4x$. Thus, the more firm 1 produces the greater are firm 2's costs. Both firms face competitive product markets. The competitive price of x is 20 and the competitive price of y is 40. No new firms can enter the industry and the old ones remain. The efficient Pigouvian tax on the x good is:

   (a) 0.

   (b) 1.

   (c) 2.

   (d) 3.

   (e) 4.

2. The Coase theorem implies all but which one of the following?

   (a) Sometimes externalities can be internalized by assigning property rights to the offending party.

   (b) Sometimes externalities can be internalized by assigning property rights to the offended party.

   (c) Externalities can be internalized by assigning property rights to either party if the transactions costs are high enough.

   (d) Private parties can sometimes deal with externalities through bribes and penalties, achieving efficiency without government intervention.

3. Let G be the number of hours of television broadcast each day. Consider two individuals of type A, two individuals of type B, and one individuals of type C with preferences:

$$U^A = \frac{G}{4}, U^B = 2 - G^{3/4}, U^C = G - \frac{G^2}{2}.$$

If G can take any value $0 \leq G \leq 2$, what is the majority voting outcome?

(a) 0.

(b) 1.

(c) 1.5.

(d) 2.

4. The voting (or Condorcet) paradox refers to

(a) the power of the median voter who may be poor.

(b) the lack of incentives for people to vote.

(c) the power of ill-informed voters to achieve efficient outcomes.

(d) inconsistent choice making through majority voting.

5. Consider a project which involves an investment cost now and generates benefits in the future. Which of the following changes will make the project more likely to be socially desirable?

(a) Benefits are delayed.

(b) Costs increase.

(c) The discount rate decreases.

(d) Benefits decrease.

6. If married women have greater labor supply elasticities than single women, efficiency considerations might suggest that an income tax taxes

(a) the married women at higher marginal rates.

(b) the single women at higher marginal rates.

(c) all women at the same marginal rates.

(d) only the married women.

7. Which of the following is true?

(a) A lump-sum tax has no effect on individuals' decisions.

(b) A lump-sum tax has a substitution effect on individuals' decisions.

(c) A lump-sum tax has an income effect on individuals' decisions.

(d) Income tax is a lump-sum tax.

8. When a competitive market has a horizontal supply curve and a monopolist has a horizontal marginal cost curve, which of the following statements is true of both markets if a specific tax is imposed on each?

   (a) The extent to which price rises depends entirely on the shape of the demand curve.

   (b) The extent to which quantity falls depends entirely on the shape of the supply curve.

   (c) Price will increase, and increase by more in the monopolized market.

   (d) None of the above.

9. * Suppose that the (inverse) demand for a good of quantity q is $p = a - q$ where $a > 0$ and the good is produced by a monopolist with a constant marginal cost equal to $c > 0$. Suppose that the government levies an ad valorem tax of τ that is physically collected from the consumers. What is the resulting level of output?

   (a) $[a - c(1 + \tau)]/2$

   (b) $[a(1 + \tau) - c]/2$

   (c) $\left[\frac{a}{(1+\tau)} - c\right]/2$

   (d) $\left[a - \frac{c}{(1+\tau)}\right]/2$

Public Economics

Economie Publique

QCM

Multiple choice, June 2013

Student number (numéro d'étudiant) :

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