



Stockholm
University

Department of Economics

Course name: Public Finance
Course code: EC2106
Semester: Fall 2015
Examiner: Mikael Priks
Number of credits: 7,5 credits
Date of exam: Sunday, 02-21-2016
Examination time: 3 hours

Write your identification number on each paper and cover sheet (the number stated in the upper right hand corner on your exam cover).

Do not write answers to more than one question in the same cover sheet. Explain notions/concepts and symbols. Only legible exams will be marked. **No aids are allowed.**

The exam consists of 3 questions. The first two questions are worth 40 points each and the last question 20 points, 100 points in total. For the grade E 45 points are required, for D 50 points, C 60 points, B 75 points and A 90 points.

If you think that a question is vaguely formulated: specify the conditions used for solving it.

Your results will be made available on your "My Studies" account (www.mitt.su.se) on the 14th of March at the latest.

Good luck!

Retake Exam, Public Finance, 02-21-2016

This exam consists of three questions. The first and second question give 40 credits each and the last question gives 20 credits. p denotes prices and q quantities. To get full credit, you need to state and explain your results clearly. Good luck!

Taxation (40)

- What is the difference between statutory incidence and economic incidence?
- Explain the Laffer curve by using a figure.
- Assume that the demand curve is given by $p=10-q$ and the supply curve is given by $p=4$. A unit tax equal to 2 is imposed on the producers. Show in a figure and derive the produced quantities with and without the tax. Show the welfare loss and explain why it arises. How large are the tax incomes for the government?
- Assume that the demand curve is given by $p=30-2q$ and the supply curve is given by $p=q$. Assume that a unit tax equal to 6 is imposed on the consumers. Show and derive the equilibrium price without the tax as well as the consumer burden and the producer burden. Explain the difference between them.

Social insurance (40)

- Describe what an insurance is. Why do individuals value insurance?
- What does moral hazard mean? Give an example.
- State different reasons for why the government may want to provide social insurance.
- Assume that an individual is involved in an accident with a probability p . Her income is w . In the case of an accident, she incurs a medical cost k . She can buy an insurance premium m per \$ of insurance, which will pay her b \$ if the accident occurs. Assume also that the individual has the utility function \sqrt{c} where c denotes consumption. Assume finally that the insurance companies make a fair premium. Show the individual's expected utility and show how large insurance she will buy. Explain what a fair premium means. Discuss intuitively how large insurance an individual would buy if her utility function instead would be linear.

Public goods (20)

- State three reasons when private provision of public goods is likely to overcome the free rider problem.
- Why are the marginal valuations summed up vertically in the production of a public good?