

## Tutorial 1: Introduction and Basic Terms

Question 1: Decide which of these statements are normative and which are positive:

- a. Every individual in society should be given equal opportunities.
- b. 40% of the population have an average gross income below 1300€..
- c. The work of an economist is more worth than the work of an artist..
- d. The forecasts for the coming election indicate that the SPD will be elected by a narrow majority..
- e. We must educate the population more so that right-wing extremist parties have no chance of being elected.
- f. In experiments, the individuals predominantly decide in favour of equal distribution.

Question 2: Repetition Microeconomics: Explain the main features of the Edgeworth Box. Consider the indifference curves, the initial equipment, the swap lens and the contract curve and use a simple example to argue how individuals can improve through voluntary exchange. Why is the Pareto optimum achieved in distortion-free markets under Homo Oeconomicus's assumption?

Question 3: (Exam Question, Exam 19.02.2019, Question 1, Lecture Part I) **(50-60 Min)**

From traditional welfare economics three important policy implications can be derived. Economic policy (i) should facilitate and maintain Pareto improvements and efficient allocations, (ii) promote voluntary exchange of goods and services and implement exchange institutions, and (iii) help to implement and maintain perfect competition in markets. By using an Edgeworth Box, please explain the underlying theoretical arguments for these policy implications. ~~Take the fairness problem of envy-freeness as well as incentives for conflict investments into account and discuss the policy implications following from those considerations.~~ (Last part not covered yet in Lecture or Maintutorial).