

Economic Policy and Public Choice

Exam
12. 02. 2018

Please write down your name on every sheet and sign your test on the last sheet.

1) 6 Credit Points:

You have **90 minutes** to **answer two of the three questions in part I** (questions 1 – 3) **and one of the two questions in part II** (questions 4 - 5). If you give an answer to all questions in any of the two parts, your answer to the last question of that part will not be considered in the final judgment. Only writing and drawing tools are permitted.

Good luck!

Part I (Lecture)

1. Many market advocates believe that simulating pricing just like in markets solve the problem of efficient public goods provision. Show in the Shibata Box model that and how strategic “price” manipulation prevents efficient outcomes. Compare the tax price equilibrium with the Edgeworth Box price equilibrium. Why do individuals move towards efficient pricing in the private goods case, and away from it in the public goods case? Explicate the policy implications for the two cases!
2. Why is the identification of the power balance an essential for the derivation of useful economic policy conclusions? How the balance of power does help in identifying relevant trade options and inefficient conflict solutions to the economic problems of allocation and distribution? Does it make sense to assume secure property rights for the formation of allocation and distribution policy? Develop your arguments with the application of a simple conflict-exchange box!
3. An economic policy argument for unconditional basic income is the organization of the freedom and potential to participate in economic, cultural and societal life for everyone. Argue along the line that one could solve with that agenda the trap of worthless liberty. What is the position of worthless liberty in the hierarchy of needs and policy goals? Discuss, therefore, worthless liberty against priceless as well as priced liberty and argue, if one needs unconditional basic income for a solution of the worthless liberty trap.

Part II (Tutorial)

4. Describe the concept of bounded rationality and how it differs from rationality. Does the allias paradox support bounded or standard notions of rationality? Explain why. Describe paternalism and its purpose. How can policy makers understanding of bounded rationality help them implement effective paternalistic policies? Provide your own example. What are the drawbacks of using paternalistic policies? Argue for or against their use.
5. What is an externality? Provide an example of both a positive and negative one. Using the Shibata box for the case of a public good show graphically, absent any negotiation, if a two person interaction would lead to an over or under provision of this good. Explain why we see this outcome and how it was demonstrated in the public goods game experiment. What policy steps would you take to address this issue and explain why it would be effective?