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Econ 4620 Public Economics S2012: Seminar assignment for week 18

Problem 1
Suppose the target group of a transfer can be identified in a costless way.
Discuss the choice between transfer in kind and transfer in cash.

Problem 2
Give examples of how transfers in kind may help overcome asymmetric information problems
when making transfers to certain individuals.

Problem 3
An important issue in local public finance is whether local communities should be free to set
local taxes as they like.
    a) Discuss some concerns of relevance for this discussion.
Some studies find spatial correlation in the generosity of welfare payments in municipalities
    b) Can you think of reasons for this finding?

Problem 4
Suppose there are two countries (regions), each with poor and rich inhabitants. Normalise the
aggregate number of each type to 1. Incomes are exogenous. Each country uses a tax- transfer
scheme to make transfers to the poor. Each person can locate in either country and has
preferences for disposable income and location. There is a (uniform) distribution of
preferences across the population. Denote by d_0 the relative weight given to location in the
preferences of the poor and let d_1 denote the relative weight given to location in the
preferences of the rich. The respective relative weights given to disposable income are
$\mu_0 = 1/d_0$ and $\mu_1 = 1/d_1$. These parameters are interpreted as measures of mobility.

    a) Discuss why this interpretation may be appropriate.

Denote by t and t*, respectively, the taxes levied on the rich in region 1 and region 2. x_0
denotes the proportion of poor and x_1 the proportion of rich joining region 1. Each country
maximises the transfer to its poor residents.

$$x_1 = \frac{1}{2} + \mu_1 \frac{t^*-t}{2} \qquad (1)$$

$$\frac{dx_0}{dt} = \frac{1/2 - t\mu_1}{d_0 + 2t} = \frac{1/2 - t\mu_1}{1/\mu_0 + 2t} \qquad (2)$$

At a symmetric equilibrium

$$t = t^* = \frac{1}{\mu_1 - \mu_0} \qquad (3)$$

    b) Explain the economic contents of (1) – (3).

Problem 5
Suppose you are given the task of assessing the taxation of corporate income in a country.
List key issues that you would address and discuss approaches to this task.