

EC3060 Economics of Policy Issues - Module B

Please answer all questions (max. 600 words per answer). Each question carries equal mark.

The submission deadline is Monday March 30th, at 5.30 pm. Late submissions will not be accepted.

The assignment should be submitted through www.turnitin.com. The class ID is 2648592 and the password is econpol (http://www.turnitin.com/static/pdf/tii_student_qs.pdf).

Question 1 (Hillman, chapter 5)

1. Explain why private insurance markets fail to offer insurance. Can the government provide social insurance in a way that solves any of the problems that inhibit private insurance?
2. What is the difference between efficiency losses incurred through the "leaky bucket of redistribution" and efficiency losses incurred through Moral Hazard? Explain why moral hazard is a case of a principal-agent problem.

Question 2 (Hillman, chapter 5)

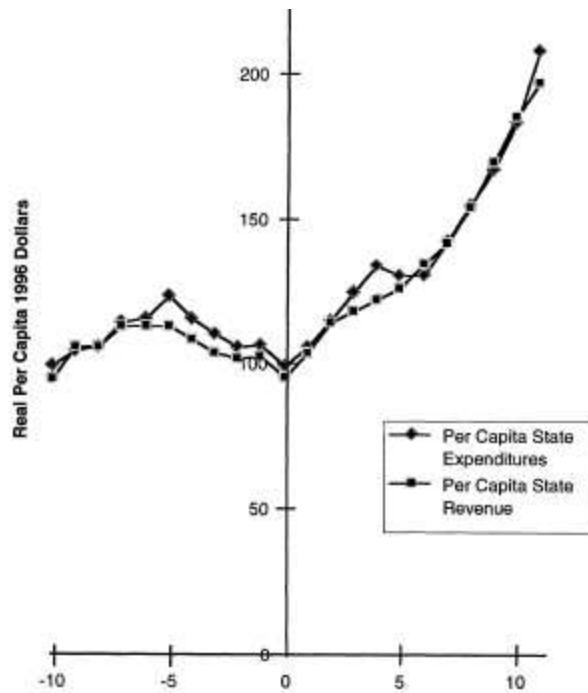
Suppose that all insurance contracts could be based on individuals' observed effort rather than their observed incomes. Would social insurance still be required or could private markets provide insurance? Explain.

Question 3 (Hillman, chapter 5)

In a change of public policy in the mid 1990s, the US federal government required that minimally 25% of welfare recipients in a state should be working. By the end of the 1990s, outcomes ranged from around 13% compliance in the state of Louisiana to around 97% in the state of Oregon. What explanations can you offer for such wide differences?

Question 4

The following figure shows the effect of giving women the right to vote on per capita state government expenditures and revenue. The horizontal axis shows the years before and after women were given the right to vote in different states in the U.S. Year 0 is the first year in which women were allowed to vote in different states. Comment on the Figure.



Question 5 (Hillman, chapter 6)

How do different forms of public finance for political expenses affect political candidates' policy positions? Do you think that political candidates should receive publicly financed subsidies for political expenses? If so, how should the public money be distributed?

Question 6 (Hillman, chapter 6)

In 1967, Gordon Tullock proposed the idea that rent-seeking is a source of social loss by observing common elements of import taxes (tariffs), monopoly and theft. Tullock based the common relationship on rent seeking. Why is rent-seeking a characteristic that import tariffs, monopoly and theft have in common?

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