Public Economics S2012 – Guidelines for marking

According to the learning outcomes of the course, the course participants are supposed to

•achieve knowledge of central concepts and basic models of modern public economics based on second best welfare theory,

•acquire relevant knowledge of actual policies,
• acquire abilities to explain the economic contents and trade-offs captured by the models,
• acquire abilities to discuss the assumptions, relevance, and limitations of the models.

Key concepts are those characterising types, properties, and effects of taxes and those describing publicly provided goods, market imperfections, and second best constraints. Key models are variants of the Ramsey and the Mirrlees models of taxation and extensions of these models.

The set of exam problems tests many of these abilities.

Problem 1 tests basic insights into key concepts in public economics (distortions, externalities, income and commodity taxes) and requires use of at least one of the key models of the course. Reproduction of formal conditions are not required, but the students should be able to describe the main features of the model(s) and convey the relevant insights from the model(s) to shed light on the questions being asked.

Problem 2 tests the students' knowledge of a particular model and ability to do simple analysis of the kind they have been exposed to in teaching.

Problem 3 addresses a part of actual tax policy in Norway and requires ability to explain the economic contents of formal presentation.

Problem 1
Major sources from the reading list are the Edwards, Keen, Tuomala article, the extract from Salanié's book and the parts of the textbook addressing income and commodity taxes. The topics have been addressed in the lectures and seminars.

A major test will be the ability to use basic knowledge, to select and present relevant models (Ramsey or Mirrlees), and to give the discussion a good structure. This is supposed to be rather challenging and is expected to provide a good screening of the students. A good understanding of social efficiency, of the distortions caused by the taxes in question, and of

the externality problem is central. The candidate should reveal insights into optimal mixed taxation, and the combinations of externality-correcting and distortionary taxes.

One may also expect knowledgeable students to discuss some other concerns (not captured by these major models) when setting commodity taxes, as discussed for instance in Christiansen's paper on the reading list taken from the Nordic Yearbook.

All these topics have been discussed in lectures and seminars,but he framing of the questions is novel in this exam problem.

Problem 2

This model is presented in the textbook ch. 18.2.1 and was presented in the lectures. Questions a and d are explicitly answered in the textbook. Otherwise there are some twists to the textbook presentation. b and c were discussed in the lectures.

Problem 3

These formulas are found and explained in the article of P.B. Sørensen on the reading list.

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To pass the exam, the students should demonstrate that they have acquired at least some basic insights *from the course*. They should be able to contribute to analysis/discussions of the questions in a way not expected from students not having taken the course. Also they should not reveal ignorance, misperceptions and misunderstandings that would prove "disastrous" in professional analysis and discussions.

To achieve a top mark a student should leave no major question unanswered and should commit no serious error. In particular, one should expect a top student to provide a well structured answer to the more open questions 1a and b and to show mature insights into (in)efficiency effects of taxes. It is a must to know the similarities between income and commodity taxes, the case for mixed taxation, the weakness of the double dividend argument in question 1, ability to do proper (more or less formal) analysis in 2, and good knowledge of the shareholder income tax in 3.

Some less serious errors and imperfections are tolerated if the candidate in most respects shows analytical skills, a solid and mature understanding and originality; i.e. there is no doubt that this is an excellent public finance economist .