

May Examination Period 2024

ECN352 Public Economics Duration: 2 hours

**YOU ARE NOT PERMITTED TO READ THE CONTENTS OF THIS QUESTION PAPER UNTIL
INSTRUCTED TO DO SO BY AN INVIGILATOR**

Answer ALL questions

Provide an explanation for all your answers. Credit is given for the quality and clarity of your explanations, not just for having the correct answer (including TRUE/FALSE/UNCERTAIN questions). There is no need for lengthy explanations (5 or 10 lines often suffice). Cross out any answers that you do not wish to be marked.

You are permitted to bring 20 x A4 pages of notes into your examination (i.e. 10 double sided pieces of paper). These can be typed or handwritten and can include graphs and images. They can include material from any source.

Your notes must be stapled together and include your student ID number and the module code on the first page. You must submit your notes at the end of the examination with your answer booklet.

Calculators are not permitted in this examination. Complete all rough workings in the answer book and cross through any work that is not to be assessed.

Possession of unauthorised material at any time when under examination conditions is an assessment offence and can lead to expulsion from QMUL. Check now to ensure you do not have more than 20 pages of notes. You should also not have mobile phones, smartwatches or unauthorised electronic devices on your person. If you do, raise your hand and give them to an invigilator immediately.

It is also an offence to have any writing of any kind on your person, including on your body. If you are found to have hidden unauthorised material elsewhere, including toilets and cloakrooms, it will be treated as being found in your possession. Unauthorised material found on your mobile phone or other electronic device will be considered an assessment offence. A mobile phone that causes a disruption in the exam is also an assessment offence.

EXAM PAPERS MUST NOT BE REMOVED FROM THE EXAM ROOM

Examiners: Felipe Merlano

Question 1

Based on the concepts and discussion of the module, explain two reasons why the *first* fundamental theorem of welfare economics may fail.

[10 marks]

Question 2

Following the empirical strategy of the paper "Who Pays for the Minimum Wage?" (AER, 2019) by Peter Harasztosi and Attila Lindner, answer the following questions:

a) Apart from the key identification assumption of parallel trends, what is the second fundamental identification assumption discussed by the authors? Explain the assumption and how it could be violated.

[15 marks]

b) What explanation do the authors propose for the finding that the disemployment effects in the non-tradable and service sectors are significantly smaller than in other sectors?

[15 marks]

Question 3

Following the paper "The Welfare Effects of Social Media" (AER, 2020) by Hunt Allcott, Luca Braghieri, Sarah Eichmeyer and Matthew Gentzkow, answer the following questions:

a) Explain how the authors elicit participants' willingness-to-accept (WTA) to stay deactivated for four weeks rather than 24 hours.

[10 marks]

b) Demonstrate analytically why, with the approach to elicit participants' willingness-to-accept (WTA), participants in the experiment have incentives to tell the truth.

[10 marks]

Question 4

Figure 1 presents one of the possible outcomes in the first model of adverse selection discussed in the lectures (from Einav, Finkelstein, and Cullen, 2010). Remember that in this version of the model, we assume that there is only heterogeneity in risk types among buyers. First, briefly explain the diagram in Figure 1. Second, explain, using the diagram (Figure 1), the theoretically predicted effect of introducing a lump-sum subsidy toward the price of coverage in this model.

[20 marks]

Adverse Selection in the Textbook Setting

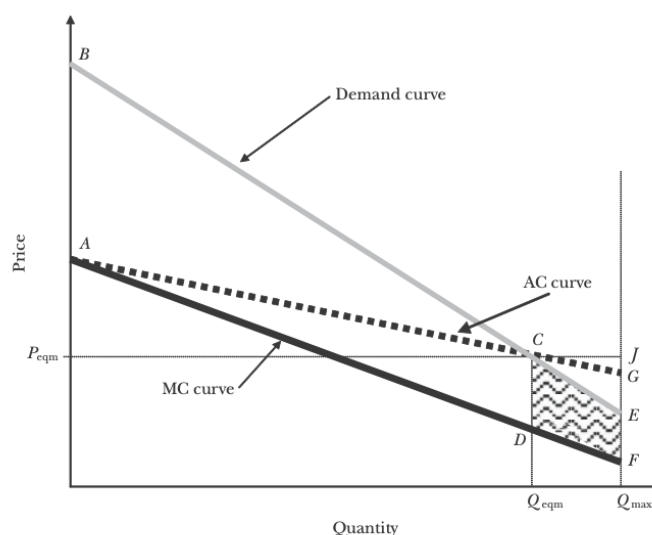


Figure 1

Question 5

Discuss two economic rationales for taxing capital income in addition to labour income if the government's goal is to reduce income inequality.

[20 marks]