1 Definitions

1. majority voting rule
2. voter’s paradox
3. double peaked preferences
4. unanimity voting rule
5. externality
6. Pigouvian tax/subsidy
7. Coase solution
8. SWF
9. Gini coefficient
10. commodity egalitarianism
11. in-kind transfer
12. adverse selection
13. moral hazard
14. discount rate
15. economic incidence of a tax

2 Concepts/Problems

1. How do we make social choices in democratic societies?
2. Be able to show outcome of a majority rule election and whether there is a voter’s paradox and why?
3. Does majority rule yield a Pareto efficient outcome? How about unanimity rule?

4. Why do externalities usually result in market failure (i.e. inefficient outcomes)? Be able to show in a diagram for both positive and negative externalities.

5. Be able to discuss various private and public policies to ‘correct’ for externalities: Pigouvian taxes/subsidies, mergers, Coase solutions. Be able to show in a diagram how these policies attain efficient outcomes.

6. Be able to discuss trends in the distribution of income in the US over the last 40 years, i.e., is the distribution of income equal in the US today, and has it become more or less equal over the last 40 years.

7. Be able to interpret quintile tables.

8. How do we determine whether an allocation is equitable?

9. What is a utility possibilities frontier and where does it come from?

10. What assumptions are required for maximization of an additive utilitarian SWF to yield equal incomes as its solution?

11. What condition holds when a utilitarian SWF is maximized subject to income?

12. Be able to solve for SWF maximizing distribution of income for various specifications of marginal utilities.

13. What is commodity egalitarianism?

14. What major expenditure programs does the US use to redistribute income?

15. Are these consistent with what our model which suggests that equity and efficiency are the rationales for government intervention in the economy?

16. Compare the effect of subsidies, in-kind transfers and cash transfers on consumer welfare (you should be able to do this graphically) and conceptually.

17. How do we rationalize the public sector’s role in providing/financing health care? What role does government play in this sector in the US?

18. What is the effect of third party payors on health care demand?

19. Discuss alternatives for reform of Medicare/Medicaid.

20. Be able to state and interpret the benefit-cost rule (net present value).
21. Be able to show and compute the partial equilibrium incidence of a unit and ad valorem tax.

22. What is the role of elasticity in tax incidence?