Exam 3

Code Name: __________________________
(1.5 pts)

Part 1: Multiple Choice (3.5 points each unless indicated)
Answer these on this paper.

1. ______ How does income distribution in the U.S. compare to most less developed nations?
   a. Income distribution is measured in a significantly different way in the U.S. than in other less developed nations.
   b. Data on income distribution is not available for any less developed nations.
   c. Income is distributed more equally in the U.S. than in most less developed nations.
   d. Income is distributed about as equally (+ 2%) in the U.S. as is the average for less developed nations.
   e. Income is distributed less equally in the U.S. than in most less developed nations.

2. ______ How does income distribution in the U.S. compare to most developed nations?
   a. Income distribution is measured in a significantly different way in the U.S. than in other developed nations.
   b. Data on income distribution is not available for most developed nations.
   c. Income is distributed more equally in the U.S. than in most developed nations.
   d. Income distribution in the U.S. is very typical for a developed nation of the U.S.’s per capita GDP.
   e. Income is distributed less equally in the U.S. than in most developed nations.

3. ______ How does income distribution in the U.S. today compare to, say, 1975?
   a. Income distribution is measured in a significantly different way today than in 1975.
   b. Accurate data on income distribution is not available for any years prior to 1982.
   c. Income is distributed more equally in the U.S. than in 1975.
   d. Income is distributed about as equally (+ 1%) today as in 1975.
   e. Income is distributed less equally in the U.S. than 1975.

4. ______ Which of the following is true of unemployment insurance?
   a. Unemployment insurance is “experience rated”. The amount a firm pays for unemployment insurance increases if it has laid off a large % of workers in the past.
   b. The federal government mandates that firms above a certain size buy unemployment insurance. The insurance itself, however, is provided by private firms.
   c. Unemployment insurance premiums are collected as part of the payroll (FICA) tax. The unemployment insurance program is the “UI” part of the Social Security/Medicare trust.
   d. Unemployment insurance benefits are fixed. They do not vary as a worker’s (former) income changes.
5. ______ Who is the/a father of “utilitarianism”? Who suggested that maximizing the sum of all individual’s utility would be a good thing for society to do?
   a. Thomas Aquinas.  
   c. Scott Carpenter  
   d. Frederich Nietzsche  
   e. John Rawls

6. ______ Which of the following is true of Social Security in 2002? This is not asking what will happen to Social Security in the future or what Social Security was in the past.
   a. Social Security is currently 100% “pay-go”.  
   b. Social Security is currently 70% “pay-go” and 30% pre-funded.  
   c. Social Security is currently 50% “pay-go” and 50% pre-funded.  
   d. Social Security is currently 30% “pay-go” and 70% pre-funded.  
   e. Social Security is currently 100% pre-funded.

7. ______ What has happened to the labor force participation rate of the elderly, in particular men over 65, in the past 40 some years.
   a. Labor force participation rates have fallen.  
   b. Labor force participation rates have stayed nearly the same (+ 3%).  
   c. Labor force participation rates have risen.

8. Batte Guyana is considering a national pension system. It wants to ensure 1) the elderly have minimum standards of living, 2) income distribution among the elderly is relatively equal, 4) those retiring in the near future will have adequate benefits, 5) there are good work incentives, and 5) there are high investment levels. Indicate (✔) which system is better for each criteria.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Defined Benefits</th>
<th>Defined Contributions</th>
</tr>
</thead>
<tbody>
<tr>
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<td>good work incentives</td>
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<th>Pre-Funded</th>
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<td>those retiring in the near future have adequate benefits</td>
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<td></td>
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<tr>
<td>High levels of investment</td>
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</tbody>
</table>
Part 2: **Answer 2 of the following 3 questions (32 points each) in your blue book.**

1. Erda is a consultant for the government of Gothland. She is assisting the government in developing a program designed to help the poor. Her task is to explain the pros and cons of 1) a system in which the poor receive cash, and 2) a system in which the poor receive vouchers useable only for specific products (ex. food stamps and housing vouchers).

   a. Explain the basic difference between the two programs using indifference curve analysis. Which type of program does indifference curve analysis tend to support? Why?
   
   b. Are there any arguments for the other type of program? If so, what are they?
   
   c. What is a U.S. example of each type of program?

2. The country of Batte Guyana has few government programs right now. All they have is a Defense Department and an Internal Revenue Service. They want to add a transfer program. They are considering two possibilities: 1) a negative income tax, and 2) an Earned Income Credit modeled after that in the United States.

   b. Which program will require a new government agency to administer?
   
   b. Using budget lines and indifference curves illustrate the negative income tax. Briefly explain where your numbers come from. What are the strengths and weaknesses of this type of program?
   
   c. Using budget lines and indifference curves illustrate the Earned Income Credit Program. Briefly explain where your numbers come from. What are the strengths and weaknesses of this type of program?

3. a. What is Social Security? Is it a government sponsored savings program or a transfer program? Explain

   b. What is the rationale for Social Security being the type of program (savings or transfer) it is?

   c. What/who is AIME and does she go to TCU?

   d. Graph benefits (on the vertical axis) with respect to AIME for each of the following cases

   - a government run savings program
   - a transfer program
   - a defined benefits program
   - a defined contributions program
   - Social Security as it actually exists
**Bonus.** Take this home and bring it back on Friday.

<table>
<thead>
<tr>
<th>Year</th>
<th>Income share of poorest 20%</th>
<th>Income share of 2nd poorest 20%</th>
<th>Income share of middle 20%</th>
<th>Income share of 2nd richest 20%</th>
<th>Income share of richest 20%</th>
<th>Gini Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>10 %</td>
<td>15 %</td>
<td>20 %</td>
<td>25 %</td>
<td>30 %</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>14 %</td>
<td>15 %</td>
<td>16 %</td>
<td>20 %</td>
<td>35 %</td>
<td></td>
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</tbody>
</table>

- Graph the Gini curves on the attached graphs.
- Calculate the Gini Coefficient (1 = most unequal, 0 = most equal) for each year. Show your calculations
- Is income distribution becoming more equal, or less equal, according to your Gini’s?