

Exam: International Public Finance

Winter 2007/2008

Examiner: Jun.-Prof. Dr. Marco Runkel

Exam Number: 2781

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Remarks

1. The following aids can be used: dictionary, calculator according to the examination office's list.
2. The exam consists of two open questions. **All** questions and problems have to be answered.
3. Total available time is **60 minutes**.
4. Please write readable and leave a margin at the right for corrections.

Problem 1

The basic argument of tax competition predicts that capital taxes and therefore public good provision are too low.

- (a) Provide an algebraic treatment of this argument assuming that the number of countries is infinitely large. Also give an intuitive illustration of your result. **(30 percent)**
- (b) Explain to what extent the number of countries that compete for mobile capital is important for the underprovision result. **(20 percent)**
- (c) Explain in which way the preferences regarding the public good as well as the shape of the production function determine whether the welfare loss from tax competition is huge or rather small. Illustrate graphically! **(25 percent)**

Problem 2 (25 percent)

Set up a general rule that shows the cases in which a fiscal equalization scheme results in underprovision, overprovision or efficient provision of the public good, respectively. Explain, your result.

Good luck!