

## Revision (May, 2017)

**□ Part 1: Which of the following statements are true? [correct the wrong answers]**

NO.	Questions	Ans.
1	Depending on circumstances, GNP can be either higher or lower than GDP.	T
2	Taxation is a payment levied by government for which goods or services are received in return, which means the amount of tax people pay is related directly to the benefit people obtain from the provision of a particular good or service. <i>Ans. (not directly related to the benefits)</i>	F
3	Public finance is a field in economics that only demonstrates the taxing activities of the government. <i>Ans. (The taxing and spending activities of the government)</i>	F
4	The overall impact of public sector decisions must be examined in the context of their impact on private sector behavior.	T
5	Stabilization is the process of assigning and managing economic resources in a manner that aims at maximizing a country's welfare. <i>Ans. (Resource allocation is the process.....)</i>	F
6	Allocation is the process of distributing the yields of the production process among groups of individuals, households, social classes, or factors of production. <i>Ans. (Income distribution (Distribution))</i>	F
7	A redistribution is an economic problem, which exists due to the fact that the market economy delivers an outcome that does not maximize efficiency. <i>Ans. (Market failure)</i>	F
8	Stabilization is the set of measures or the process that aims at creating an active market in order to boost the level of economic activity.	T
9	A stabilization policy aims at achieving macroeconomic stability in terms of keeping economic growth stable, along with the level of inflation and unemployment.	T
10	The price mechanism is the only possible way used by governments in order to address market failures in the private market. <i>Ans. (There are other mechanisms: licensing or trade policy, public provision, public financing of private provision).</i>	F
11	Public financing of private provision of goods means that the government can provide the good directly, in order to potentially attain the level of consumption that maximizes social welfare. <i>Ans. (Indirectly)</i>	F
12	Annual expenditure is the only indicator that is usually used to measure the size of government. <i>Ans. (Annual expenditure &amp; Number of government employees)</i>	F
13	The everyday things we do usually have more to do with Local Governments.	T

14	U.S. public sector is quite small compared to Sweden or France. Although large, the U.S. government is small in relative terms.	T
15	The quantity of goods with positive externalities is greater than what the market equilibrium would be if the cost of the negative externality was factored into the price of the product. <i>Ans. (Negative externalities)</i>	F
16	The government can remedy externalities by taxing products with negative externalities and subsidizing products with positive externalities.	T
17	The government can promote positive externalities by paying a corrective subsidy to either buyers or producers.	T
18	A common market-based policy to reduce negative externalities is by imposing a corrective tax, which is a tax that internalizes the externality by incorporating it as a cost of production.	T
19	one of solutions to reduce the negative environmental impact of gasoline is to increase gasoline taxes, which would motivate many people and businesses to reduce their consumption of gasoline.	T
20	A free market consists of the involuntary interaction of producers and consumers of goods and services. <i>Ans. (the voluntary interaction)</i>	F
21	One of main functions of government emphasized by Adam Smith is the duty of meeting expenses necessary for support of the sovereign.	T
22	If a tax is levied on producers, the equilibrium quantity will decrease. On the other hand, if a tax is levied on consumers, the equilibrium quantity will increase. <i>Ans. (produces the same effect, A decrease in quantity.)</i>	F
23	A subsidy given to producers or consumers results in an increase in equilibrium quantity.	T
24	The marginal social cost is the summation of the marginal cost and the marginal environmental damage.	T
25	When positive externalities exist, a corrective tax is required in order to produce the optimum output level. <i>Ans. (Negative externalities)</i>	F
26	Externalities arise whenever the actions of one economic agent make another economic agent worse or better off, yet the first agent neither bears the costs nor receives the benefits of doing so.	T
27	An example of positive production externality is when a firm's production reduces the well-being of others who are not compensated by that firm. <i>Ans. (An example of negative production externality)</i>	F
28	An example of negative production externality is when a consumer uses a car and emitting carbon contributing to global warming. <i>Ans. (negative consumption externality)</i>	F
29	Negative consumption externalities lead to over consumption.	T
30	Positive consumption externalities lead to under consumption.	T

31	Negative production externalities lead to under production. <i>Ans. (over production)</i>	F
32	Positive production externalities lead to over production. <i>Ans. (under consumption).</i>	F
33	The Price mechanism is a form of market regulations used when public policy makers force firms to directly produce the socially efficient quantity. <i>Ans. (Quantity regulation)</i>	F
34	The Quantity regulation is a form of market regulations used when public policy makers force firms to indirectly produce the socially efficient quantity by using corrective tax or subsidy. <i>Ans. (The Price mechanism)</i>	F
35	While a tax creates a deadweight loss in case of negative externalities, a subsidy does not create a deadweight loss in case of positive externalities. <i>Ans. (both taxes and subsidies create deadweight loss)</i>	F
36	A fiscal system is responsible for collecting the required amount of public revenues. Usually, the state uses its bargaining power to collect these revenues. <i>Ans. (The state uses legislative and executive powers, as well as its own public administration bodies and institutions to collect required revenues.)</i>	F
37	According to the collectivist view, state interventions are undesirable for the economy; therefore, they are rejected. <i>Ans. (individualistic view)</i>	F
38	The state strongly influences the private sector through various restrictive measures. One of its control tools is public finance.	T
39	The public sector coexists with the private sector. These two sectors permanently influence each other with respect to both size and activity. Thus, fiscal policy can be used to alter the level of demand for different products and also the pattern of demand within the economy.	T
40	Market Failure is indicated by instability in the economic system that usually suffers from cyclical inflation and a high rate of unemployment. <i>Ans. (Macroeconomic Failure)</i>	F
41	The stabilization function is based on both monetary and fiscal policy.	T
42	It is possible for growth rates to be positive and those at the bottom the distribution to be worse off.	T
43	Generally, there is negative relationship between Gini coefficient and growth, but there are countries with high Gini and high growth rates.	T
44	According to the optimal distribution principle, inequality always implies bad economic consequences. <i>Ans. (not necessary, high inequality implies bad economic consequences, as Gini coefficient is lower in Egypt than the United States but most people would not want to exchange places.)</i>	F
45	The Gini coefficient is a measure of inequality of a distribution. It is defined as a ratio with values between 0 and 1. Larger Gini means more income equality. <i>Ans. (more income inequality)</i>	F

46	Distribution according to benefits, compared with ability to pay, is impractical for public goods.	T
47	All economic entities are forced by law to contribute to the joint budget of national or local authorities.	T
48	The benefits from taxation should be distributed equally based on the contributions of economic entities. <i>Ans. (Although the entities contribute to a joint fund, the benefit from it expended by them is not equivalent.)</i>	F
49	The levying of taxes requires coercive authority.	T
50	Vertical equity concerns with the proper relationship between tax burdens of individuals with different capabilities to pay.	T
51	Proportional tax means that people pay same proportion of income and wealth.	T
52	Regressive tax means people with greater ability to pay, pay proportionately more. <i>Ans. (Progressive tax)</i>	F
53	According to the cash-based method in the accounting stage of the state budget, the revenue is recorded even if cash has not been received or if expenses have been incurred but no cash has been paid. <i>Ans. (Accrual accounting method)</i>	F
54	Total government expenditure is usually higher than total government spending by the value of loans repayment. <i>Ans. (Total government spending is usually greater than total government expenditure by the value of loans repayment.)</i>	F
55	The overall deficit is usually larger than the cash deficit by the value of net acquisition of capital operations.	T
56	Cash deficit refers to difference between fiscal deficit of the current year and interest payments on the previous borrowings. <i>Ans. (Primary deficit)</i>	F
57	It is true that the tax smoothing principle in EU implies that any temporary upsurge in military spending should be financed by taxes, and not by increasing borrowing. <i>Ans. (military spending should be financed by borrowing, and not by increasing taxes.)</i>	F
58	If the total expenditure equals 700 billion USD, the total revenue equals 600 billion USD, and net acquisitions of capital operations equal 2 billion USD, then the cash deficit will be 102 billion USD. <i>Ans. (the cash deficit will be 100 billion USD.)</i>	F
59	If the total expenditure equals 700 billion USD, the total revenue equals 600 billion USD, net acquisitions of capital operations equal 2 billion USD, and interest payments equal 50 billion USD, then the primary deficit will be 50 billion USD. <i>Ans. (the primary deficit will be 52 billion USD.)</i>	F

60	If the overall deficit equals 100 billion USD and the interest payments equal 50 billion USD, then the primary deficit will be 50 billion USD.	T
61	If the total expenditure equals 700 billion USD, net acquisitions of capital operations equal 2 billion USD, and repayment of loans installments equals 50 billion USD, then the total uses of the state will be 750 billion USD. <i>Ans. (total uses of the state will be 752 billion USD.)</i>	F
62	Direct cash payments are not the most effective way to combat poverty. <i>Ans. (cash transfers have been gaining in popularity as a preferred strategy for poverty reduction in different parts of the world.)</i>	F
63	The European Union has a joint budget to pay for policies carried out at European level such as agriculture, assistance to poorer regions, research, and overseas development aid.	T
64	The EU budget is proposed annually by the European Commission. The proposed annual budget is then reviewed and negotiated by the Council of the European Union and the European Parliament.	T
65	A number of factors led to the development of the Common Agricultural Policy (CAP) occurred during 1950s and 1960s including the lack of sound agricultural policy.	T
66	According to the treaty of Rome, the only main objective of the Common Agricultural Policy (CAP) was to stabilize and secure availability of supplies of agricultural products. <i>Ans. (there are other objectives includes: increasing productivity and ensuring a fair standard of living for the agricultural Community.)</i>	F
67	The 2008 financial crisis resulted in high international food prices helped in solving problems associated with farm subsidies in EU. <i>Ans. (the world food price crisis has renewed calls for removing farm subsidies.)</i>	F
68	By helping farmers with income support, the common agricultural policy (CAP) ensures sustainable rural development according to the specific needs in each EU country.	T
69	The only available instrument of the CAP is the provision of farmers with income support. <i>Ans. (in addition to the income support, CAP also includes other market measures that aims at ensuring sustainable rural development.)</i>	F
70	The new CAP provides flexibility for member states to adapt some of the tools to respond to their country-specific situations.	T

## □ Part 2: Define the Following Terms

### 1. Market failure

*Ans.*

Problem that causes the market economy to deliver an outcome that does not maximize efficiency.

### 2. Redistribution

*Ans.*

The shifting of resources from some groups in society to others.

### 3. Political economy

*Ans.*

It is the study and use of how economic theory and methods influence and develop different social and economic systems, such as capitalism, socialism and communism, and it analyzes how public policy is created and implemented.

### 4. Bureaucracy

*Ans.*

A system of government in which most of the important decisions are taken by state officials rather than by elected representatives. It is considered a system of administration marked by adherence to fixed rules, red tape, and hierarchy of authority.

### 5. Fiscal illusion

*Ans.*

Fiscal illusion becomes evident in those contexts in which an increase in provided public services is unperceived by economic agents. It is introduced by Puviani in 1903 and it is defined as the phenomenon that generates a feeling of easing the tax burden and an increase in social benefits, especially possible in those contexts in which the revenue of the State and the financing of public services are not fully known or controlled by the leading taxpayer. They do not get the perception that this increase in services is not made up during the same period of taxation, but rather through the use of public deficit. This implies a simple shift of the increase in taxation to future years, or of an increase in the supply of money, that generates inflationary pressures. Such pressures will cause increases in fiscal pressure and tax revenues, but only in future years.

### 6. Deadweight loss

*Ans.*

A deadweight loss is a cost to society created by market inefficiency, which causes an inefficient allocation of resources. Taxes and subsidies are said to create deadweight loss. Taxes creates deadweight loss because they prevent people from engaging in purchases they would otherwise make. This is because the final price of the product is above the equilibrium market price. Subsidies creates deadweight loss because they encourage people to engage in purchases they wouldn't otherwise make. This is because the final price of the product is below the equilibrium market price.

## **7. A corrective tax**

*Ans.*

A corrective tax is a market-based policy used by the government to address negative externalities, i.e., negative impacts of business and economic activities. Taxes increase the cost of producing goods or services generating the externality, thus encouraging firms to produce less output.

## **8. Lorenz curve**

*Ans.*

It is a graphical representation of income distribution. The curve depicts on its horizontal axis a defined population, broken down into percentiles, or deciles or quintiles and ordered from, from left to right on the horizontal axis, from the poorest to the richest families. On the vertical axis of the Lorenz curve is shown the cumulative percentage of income or wealth. In a Lorenz-curve construct, both the horizontal and the vertical axis go from 0% to 100%. It follows that the diagonal of the box traced out by this graph – a 45-degree line – can serve as the benchmark for a perfectly equal distribution. Deviations of the actual cumulative distribution – the so-called “Lorenz or Concentration curve” -- from the 45-degree line then denotes the degree of inequality. Thus, the more bent the line of the Lorenz concentration curve is, the more unequal is its distribution across the population.

## **9. Non-optional principle of public finance**

*Ans.*

Economic entities are forced by law to contribute to the joint budget of national or local authorities. Although the entities must contribute, they are not guaranteed a sufficient amount of public goods.

Taxation being compulsory contributions from individuals, or business entities to the government to defray the public expenditures by the government has some effects in the economy as well as in the social life of the society.

## **10. Non-refundable principle of public finance**

*Ans.*

The imposition of tax should yield the expected revenues in order to assist government forward planning. However, these collected revenues are not directly refunded to the tax payers.

## **11. Non-equivalent principle of public finance**

*Ans.*

Although the entities contribute to a joint fund, the benefit from it expended by them is not equivalent. Simply, poor households contribute little, but the goods provided for them by the public sector are relatively large. With regards to rich households, the situation is reverse.

## **12. Regressive Redistribution**

*Ans.*

People with greater ability to pay, pay proportionately less tax rate.

### **13. Proportional Redistribution**

*Ans.*

People pay same proportion of tax rate.

### **Progressive Redistribution**

*Ans.*

People with greater ability to pay, pay proportionately more tax rate.

### **14. Tax incidence**

*Ans.*

Tax incidence indicates that taxpayer may be able to shift some or all of the cost of a tax to someone else. It includes two types:

- Forward shift: Shift to consumers—increase prices.
- Backward shift: Shift to suppliers—reduce prices paid to them.

### **15. Fiscal budget**

*Ans.*

A budget of a government is a document presenting the government's revenues and spending for a financial year that is often passed by the legislature, approved by the chief executive or president and presented by the finance minister to the nation. Ex ante, it shows what the government intends to do during that period and how it plans to finance these activities. Ex post, it shows what the government actually did, who had to pay for it and in what form. The budget itself is the result of a budgeting process; the way in which decisions about the use and funding of public resources are made during different stages of budget process.

### **16. Acquisition of financial assets**

*Ans.*

Acquisition of financial assets represents the contributions offered by general treasury to some economic authorities that suffer from deficit in their financing structures, besides the treasury help in reforming financing centers of some companies, added to that the available loans for some entities which are considered as obligations on the state general treasury.

### **17. Grants**

*Ans.*

They are un-obligatory transfers received by governmental units from three main sources, mainly, foreign governments, international organizations and units of government and general sector. Grants are classified according the nature of activity that it finances to current Grants and capital Grants.

### **18. The Golden Rule in EU Fiscal System**

*Ans.*

The “golden rule” in public finance is the notion that borrowing should be allowed for public investment. Such a golden rule for both the federal government and the states is formally enshrined in the German constitution. More recently, the UK has adopted such a rule, according to which deficits financing of government net investment is allowed, provided that the overall government debt is kept at prudent levels (At present defined as a ratio of net government debt to GDP below 40 percent).

## **19. Relative poverty in OECD**

*Ans.*

In general, relative poverty views poverty as socially defined and dependent on social context, hence relative poverty is a measure of income inequality. Usually, relative poverty is measured as the percentage of the population with income less than some fixed proportion of median income. According to OECD, it refers to individuals or families whose resources are so small as to exclude them from the minimum acceptable way of life of the Member State in which they live.

## **20. Poverty line**

*Ans.*

Poverty line is the minimum level of income deemed adequate in a particular country. In general, the poverty line in developed countries is significantly higher than the one in developing countries.

### □ Part 3: Answer the Following Questions

#### 1. When Should the government intervene in the Economy?

*Ans.*

The government intervenes in the following cases:

- Market Failures, which can be defined as a problem that causes the market economy to deliver an outcome that does not maximize efficiency.
- Redistribution, which can be defined as the process of shifting of resources from some groups in society to others.

#### 2. How might the government intervene through the price mechanism?

*Ans.*

This can be done through raising or lowering prices of private sale or purchase. That is, government policy is used to change the price of a good in one of two ways:

- Through taxes, which raise the price for private sales or purchases of goods that are overproduced, or
- Through subsidies, which lower the price for private sales or purchases of goods that are underproduced.

#### 3. How might the government intervene through the quantity regulation?

*Ans.*

The government might restrict or expand the production of private sale or purchase. As, the government could directly restrict, e.g., through licensing or trade policy, the private sale or purchase of goods that are overproduced, or expand the private purchase of goods that are underproduced. There are two possible ways governments could use in order to expand the private production: first, public provision, which means that government can provide the good directly, in order to potentially attain the level of consumption that maximizes social welfare. Second, public financing of private provision, which means government may want to influence the level of consumption but may not want to directly involve themselves in the provision of a good.

#### 4. How could be the size of government measured?

*Ans.*

- Number of government employees
- Annual expenditures: purchases of goods and services, transfers, and interest payments

#### 5. Why does free market usually work well for consumers?

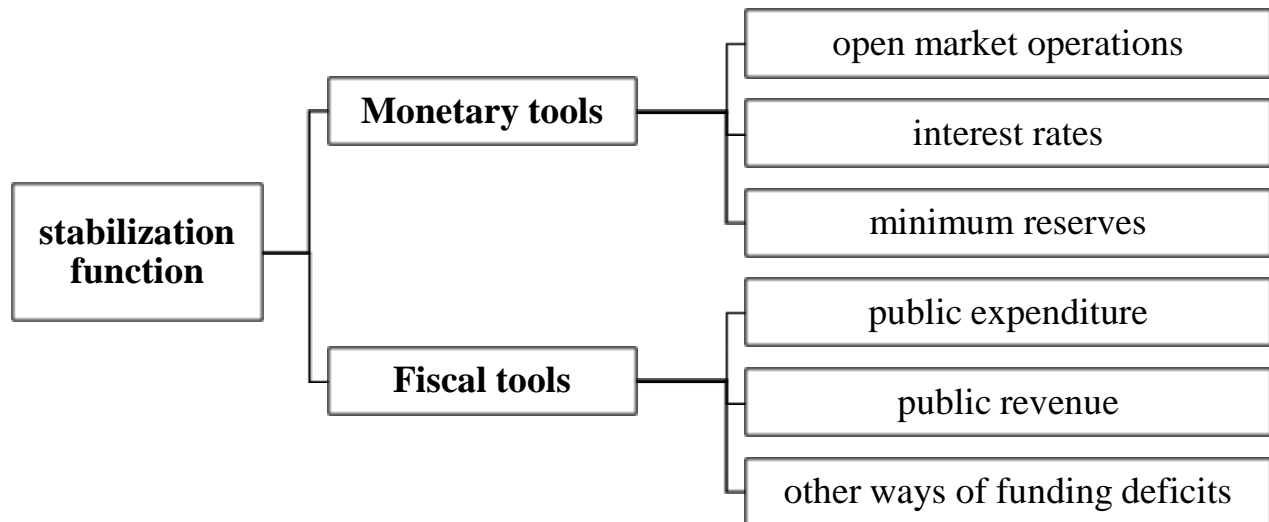
*Ans.*

Economic theories and ideologies are founded on the principle that consumers have well-defined preferences, and consistently behave to advance their self-interest. In a competitive free market, no single producer, or group of producers, and no single consumer, or group of consumers, can dictate how the market operates. Nor can they individually determine the price of goods and services, and how much will be exchanged. Competitive free markets will form under certain conditions: large numbers of producers compete with each other to satisfy the wants and needs of a large number of consumers; consumers must compete with each other to get the benefit provided by the good or service; and the profit motive should be satisfied.

## 6. How does a government undertake the stabilization function?

*Ans.*

The state uses several economic tools to perform the stabilization function. The basic classification of these tools is a division into **monetary** and **fiscal** tools.



## 7. What are main characteristics of taxation?

*Ans.*

- ✓ The only method to share burden of provision of public goods.
- ✓ It May also be used to share cost of common-pool and toll goods.
- ✓ It is the only socially acceptable way to re-distribute wealth.
- ✓ The levying of taxes requires coercive authority. For this reason, government must be careful when it comes to designing and implementing tax systems.

## 8. Lis of main criteria for designing a good tax system.

*Ans.*

- ✓ Achieving equity.
- ✓ Achieving economic efficiency.
- ✓ Reducing collection costs (to collector & to society).
- ✓ Obtaining adequate revenues.

## 9. How is ability to pay measured?

*Ans.*

Its measure is based on the following:

- ✓ Ownership of property.
- ✓ Level of Income.
- ✓ Value of net wealth.

## 10. Is there an economic justification for a progressive tax structure?

*Ans.*

According to diminishing marginal utility argument, low-income individuals value additional unit of income more than high-income individuals. Thus, progressive tax structure increases overall social welfare.

**11. What are various economic effects of taxation regarding leisure, business operation, and business pattern and location?**

*Ans.*

- **Leisure:** High marginal rates may induce a preference for leisure.
- **Business operations:** Taxes should not (generally) affect business practices.
- **business pattern and location:** Sales taxes and excises may affect shopping patterns and business location.

**12. What are various economic effects of taxation regarding personal financial management, investment choices, and savings?**

*Ans.*

- **Personal financial management:** People manage activities and finances to minimize tax burden.
- **Investment choices:** Taxes may make less productive investments preferable.
- **Savings:** Taxes may adversely affect decisions to save.

**13. Give an example about the role of the European Commission in tackling negative externalities.**

*Ans.*

During the last two decades, the European Commission has worked extensively to quantify the energy external costs. In addition, it has worked to tackle issues such as health impacts from air pollution resulted from energy supply.

**14. What are the two fund-based financial statements that should be reported for each governmental fund?**

*Ans.*

- a. The balance sheet
- b. The statement of revenues, expenditures, and changes in fund balance

**15. What are the three possible government budget outcomes?**

*Ans.*

- Balanced Budget:** when government revenue and expenditure are equal.
- Surplus Budget:** when anticipated revenues exceed expenditure.
- Deficit Budget:** when anticipated expenditure is greater than revenues.

**16. List the different stages of the budget execution process**

*Ans.*

1. The legislative appropriation of expenditures
2. The authorization stage
3. The commitment stage
4. The verification stage
5. Payment authorization or payment order stage
6. Payment stage
7. Accounting stage

**17. Describe the legislative appropriation and authorization stages, which are considered important during the budget execution process.**

*Ans.*

- The legislative appropriation of expenditures: during this stage, a budget is approved by the parliament
- The authorization stage: once a budget is approved by the parliament, ministries are authorized to spend money, consistent with the legal appropriations for each line item.

**18. Describe the commitment and verification stages, which are considered important during the budget execution process.**

*Ans.*

- **The commitment stage:** This is the stage where a future obligation (liability) to pay is incurred. A commitment arises when a purchase order is made or a contract is signed, which implies that goods will be delivered or services rendered, and that a bill will have to be paid later on.
- **The verification stage:** This signifies that goods have been delivered fully or partially according to the contract, or the service has been rendered and the bill has been received.

**19. Describe the payment authorization and payment stages, which are considered important during the budget execution process.**

*Ans.*

**Payment authorization (payment order) stage:** This means that treasuries are responsible for the issue of payment orders.

**Payment stage:** At this stage, the bill is paid--by cash, check, or electronic transfer.

- In some systems, the payment is made through a single ministry of finance account in the central bank or in a designated bank.
- In others, the payment is undertaken through the commercial banking system via bank accounts held in the names of individual line ministries.

**20. Describe the accounting stage, which is considered important during the budget execution process.**

*Ans.*

In this stage, two main methods are considered:

**Cash-Based accounting:** The cash method accounts for revenue only when the money is received and for expenses only when the money is paid out.

a) **Accrual Accounting:** requires that:

- Expenditure and liabilities are accounted for when goods and services are delivered, even if payments have not been made; and
- Revenue and receivables are recorded when goods are sold, even if proceeds have not been received.

Note: the main difference between accrual and cash basis accounting is the timing of when revenue and expenses are recognized.

## **21. How could budget appropriations be revised during the year?**

*Ans.*

During budget implementation, it is possible to change the line item appropriations approved by the parliament.

within a single economic subcategory and program, the spending agency itself is permitted to make switches from the provision for one economic subcategory to another.

For example, spending agency is permitted to make switches from the provision for one utility bill (say, water) which is below estimate to another utility bill (say, the electricity bill), which is above.

But switches between main economic categories- (from one program to another or from one program to another), even if the responsibility lies with the same line ministry, typically require the approval of the ministry of finance.

For example, from subsidies and transfers to purchase of goods and services should require the approval of the ministry of finance.

## **22. How good is the information on outturn expenditure?**

*Ans.*

- This depends on the ability of the authorities to monitor expenditure aggregates.
- The ministry of finance therefore needs to ensure the followings:
  - Aggregate expenditure data are being obtained in a timely way;
  - The data are accurate and reliable;
  - The ministry of finance has sufficient capacity to analyze and monitor these data;
  - Some unit has been explicitly assigned the responsibility for this task.

## **23. What are the problems encountered in budget execution procedures?**

*Ans.*

Some typical problems identified at the execution stage are the following:

- ✓ The multiplication of exceptional procedures that bypass expenditure control arrangements;
- ✓ The difficulty in reconciling bank statements with budget accounts and thus in obtaining reliable and timely data on cash expenditures;
- ✓ The accumulation of payment arrears;
- ✓ The lack of fund consolidation;
- ✓ Difficulty in managing and accounting for aid flows.

## **24. How can expenditure be adjusted in-year?**

*Ans.*

This is a budget adjustment process. As we find that those executing the budget may be faced with requests to consider additional expenditure in-year; or they may be asked to look at the scope for cutting back spending in-year--for example, when revenue inflows have proved disappointing. This have to be approved by the ministry of finance to authorize a change in an appropriation.

**25. List the different types of reported state budgets.**

*Ans.*

- Budget Statement
- Approved Budget
- Monthly Budget Performance
- General Budget Final Account
- Special Funds

**26. What is the purpose of special funds that are usually utilized to ensure setting aside specific revenues?**

*Ans.*

Special fund refers to an account established by a government to collect money that must be used for a specific project or purposes. Special revenue funds provide an extra level of accountability and transparency to taxpayers that their tax dollars will go toward an intended purpose. Examples of special funds include: Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

**27. How do political events, social considerations, and international indicators affect the preparation of the draft budget?**

*Ans.*

- **Political events:** political disturbances may cause fiscal pressures on the budget.
- **Social considerations:** the following social factors may cause fiscal pressures on the budget: the distribution of wealth; poverty reduction; promotion of the standards of living; the required insurance.
- **International indicators:** for example, variability in global prices for energy and prices of commodities may cause fiscal pressures on the budget.

**28. How do economic activities affect the preparation of the draft budget?**

*Ans.*

The following economic activities may affect fiscal policy of a country:

- Achieving growth characterized by sustainability and justice;
- The diversity of growth sources;
- Developing economic sectors, such as: industries, trade, construction, communication, and gas.
- Treating high rates of un-employment, high poverty levels, and poor services in health and education.

**29. How do managerial activities affect the preparation of the draft budget?**

*Ans.*

Managerial activities: promoting performance of the public sector, especially state-owned enterprises, and achieving progress in efficient PPP to decrease the pressure on the state's general budget and joining the private sector on infrastructure and capacity building.

**30. What are the main categories of the economic classification of the state budget?**

*Ans.*

- Wages and compensations of employees
- Purchase of goods and services.
- Interest payments.
- Subsidy, grants and social benefits.
- Purchase of non-financial assets "investments"

**31. List the main appropriations of the current Egyptian state budget in descending order.**

*Ans.*

1. Subsidy, grants and social benefits (30%)
2. Interest payments (26%)
3. wages and compensation of employees (25%)
4. Purchase of nonfinancial assets (Investments) (9%)
5. Purchase of goods and services (4%)

**32. What are the most important elements of subsidy in Egypt?**

*Ans.*

- Subsidy of food commodities
- Subsidy of petroleum materials
- Subsidy of electricity
- Subsidy for export development
- Subsidy for farmers
- Subsidy of passengers' transportation
- Subsidy of medicine and health insurance
- Subsidy to industrial regions
- Subsidy to water Corporations
- Subsidy of soft loans interest
- Subsidy for low-income housing
- Subsidy for developing upper Egypt
- Subsidy of students' tickets and country's non-economic routes in governorates

**33. What are the most important elements of grants and social benefits in Egypt?**

*Ans.*

Grants and aids offered from the state to human and social purposes: Youth and sports aids, Aids for Azhar institutions, Aids for social care funds for employees. The social benefits include pensions and social insurance funds.

**34. What are the most important elements of Purchase of non-financial assets, i.e., investments, in Egypt?**

*Ans.*

- Buildings and constructions: Dwellings, Non-residential Buildings
- Machines, equipment and Conveyance means
- Natural assets: Purchase of lands, Land reclamation

**35. What are the main categories of the functional classification of the state budget?**

*Ans.*

- General Public Services
- Public Order and Safety
- Economic Affairs
- Environmental Protection
- Housing and Community Amenities
- Health and Education
- Recreation, Culture, and Religion
- Social Protection

**36. What are the main categories of the general resources of the state budget?**

*Ans.*

1. General revenues (Taxes, Grants, other revenues).
2. Receipts of Financial assets.
3. Foreign and domestic financial assets issuance (borrowing).

**37. Why are automatic stabilizers not likely to be a sufficient fiscal policy tool in the case of large cyclical asymmetries in the euro area?**

*Ans.*

There are number of reasons:

- By their nature automatic stabilizers can only mitigate macroeconomic shocks, but cannot fully offset them.
- Structural reforms in the European economies with the aim of raising long-run employment and growth has weakened the automatic stabilizers.

**38. What is the main aim for the fiscal rules in the EU?**

*Ans.*

The main aim for the fiscal rules in the EU is the desire to ensure long-run sustainability of public finances, which came under threat in the 1980s and early 1990s because of the rapid build-up of government debt in most member countries.

**39. What are the fiscal rules in the EU according to the provisions in the Maastricht Treaty and the stability and growth pact?**

*Ans.*

- ✓ The treaty sets a deficit ceiling of three percent of GDP for the actual government budget balance.
- ✓ The treaty also stipulates that the gross government debt should not exceed 60 percent of GDP.
- ✓ According to SGP, countries should aim for a “medium-term” budgetary position of “close to balance or in surplus”.

**40. “Following the economic and financial crisis, the EU took unprecedented measures to improve the economic governance framework of EMU such as the strengthening the Stability of Growth Pact”. Based on the previous statement, discuss the Stability of Growth Pact within the context of the European Union.**

*Ans.*

The SGP, which was enacted in 1997, is an essential part of the macroeconomic framework of the EU. EU member states agreed to strengthen the monitoring and coordination of national fiscal and economic policies to enforce the deficit and debt limits established by Maastricht treaty 1992. The main rationale of SGP is to ensure sound budgetary policies on a permanent basis. Accordingly, member states are requested to coordinate their budgetary policies and to avoid excessive deficits. On the other hand, member states were allowed to deal with normal cyclical fluctuations without breaking the 3% of GDP reference value of the government deficit. This plays a key role in achieving macroeconomic stability and securing low inflation and low interest rates.

**41. What are the main tools of the Stability of Growth Pact in the European Union?**

*Ans.*

1. **Preventive arm:** it aims to ensure sound budgetary policies over the medium term by setting parameters for Member States' fiscal planning and policies during normal economic times, while taking into account the ups and downs of the economic cycle.
2. **Corrective arm:** it ensures that Member States adopt appropriate policy responses to correct excessive deficits by implementing the Excessive Deficit Procedure.

**42. “The logical inference of the supporters of the European integration was that a common monetary policy can be effective if supported by a common fiscal policy”. Based on the previous statement, discuss the main reason behind advocating the common fiscal policy.**

*Ans.*

Fiscal policy and monetary policy are the two tools used by the state to achieve its macroeconomic objectives. The ongoing European debt crisis has provided evidence that monetary union cannot work without fiscal union. The Eurozone is clearly unable to manage its macro-economic imbalances without some sort of federal structure to oversee revenue collection and expenditures. This is because monetary instruments are employed by the central bank and fiscal instruments are employed by ministry of finance. The objectives and implications of policy measures taken by the two institutions often conflict with each other and thus call for policy coordination for effective implementation of policy decisions to achieve the set targets.

**43. “The logical inference of the opponents of a common fiscal policy is that as long as the European Union is made up of independent nations with their own elected governments, their problems are going to be essentially local and they will need local solutions”. Based on the previous statement, discuss the main reason behind opposing the common fiscal policy.**

*Ans.*

Citizens won't accept the deficit resulted from taxation without representation. Setting budgets is a core responsibility of sovereign parliaments. Transferring that power to some distance would be deeply undemocratic. The tax harmonization that will follow fiscal union will only move in one direction: up. Thus, all members will end up paying more. In the EU, there are significant differences of prosperity. This reality is a disadvantage for Eastern European countries. This is because one of the fundamental tools used by East European governments is to attract capital from western countries by impose a relatively low tax rates. In a free market, such as the EU common market, the capital and the labor force move to areas where the net incomes are highest. As a result, the capital owners have a natural tendency to move eastward in order to escape the tax burden from the western countries.

**44. What are the main causes of poverty?**

*Ans.*

**Political Instability:** When a country is at war (including civil war) basic services like education are disrupted. People leave their homes as refugees. Crops are destroyed.

**High Debt:** Third world countries have to pay interest on their debts. This means they cannot afford to spend enough on basic services like health and education; nor on things like transport or communications that might attract investment.

**Poor Health:** Affordable or free health care is necessary for development. In poor countries, the percentage of children who die under the age of five is much higher than in rich countries. HIV/AIDS is having a devastating effect on the Third World. **Malnutrition:** Malnutrition causes severe health problems.

**Poor education:** Without education, it is difficult to escape from poverty. This becomes a vicious circle – people who live in poverty cannot afford to send their children to school.

**45. What are the main revenue sources of the EU joint budget?**

*Ans.*

The EU obtains its revenue from four main sources:

- **Traditional own resources:** comprising customs duties on imports from outside the EU.
- **VAT-based resources:** comprising a percentage (around 0.3%) of each member state's standardized value added tax (VAT) rate.
- **GNI-based resources:** comprising a percentage (around 0.7%) of each member state's gross national income (GNI).

- **Other resources:** including deductions from EU staff salaries, bank interest, fines and contributions from non-EU countries.

**46. Demonstrate the evolution of the subsidy system in Egypt during King Farouk' Era.**

*Ans.*

After World War II, the food prices have increased rapidly all over the world. In 1941, the Egyptian government tried to deal with such tough circumstances by implementing a new system of "Food rationing" in order to help Egyptians facing the negative impacts of World War in terms of inflation and scarcity of food. The new rationing system was not designed to provide food to the needy only; it targeted all Egyptians regardless of their needs to food.

**47. Demonstrate the evolution of the subsidy system in Egypt during Nasser's Era.**

*Ans.*

Following the war, in 1956, the former president Gamal Abdel Nasser started to support and develops the subsidy programs. The government involvement existed in many processes and activities as part of his socialist approach policies. The government's role was extended to include production, marketing and even selling a great chunk of agricultural products.

In 1960s, the food subsidy system was expanded in order to include additional subsidies in different fields such as water, electricity, health, education, transportation, housing, and some non-food products like cigarettes and soap.

**48. Demonstrate the evolution of the subsidy system in Egypt during Sadat's Era.**

*Ans.*

Sadat reversed a number of Nasser's policies as he preferred the model of western free market compared to Nasser's model of Arab socialism. He encouraged the food subsidy programs that grown in its cost and scope. The system was extended to contain different kinds of food such as frozen meat and chicken, lentil, beans, yellow maize, rice, and frozen fish.

**49. Demonstrate the evolution of the subsidy system in Egypt during Mubarak's Era.**

*Ans.*

In 1981, food subsidies reached 20 % of the total government expenditures which affected the Egyptian budget deficit negatively; most of the population had ration cards and disburse food subsidies. They issued ration cards with red color for highly income professions in order to lower subsidies for them on some subsidized goods such as cooking oil, tea, sugar and rice. The government issued new green ration cards for poor citizens who are eligible to all kinds of subsidized food. The continuous pressure of subsidy costs on the country's budget and the increases in international food prices as well as in population's number have led to a significant increase in the Egyptian foreign debt in 1989.

## **50. what are the negative impacts of the subsidy system in Egypt?**

*Ans.*

- a) Subsidies' programs contributed negatively to the country budget deficit as it poses a heavy burden over the governmental resources and at the same time the poor who should supposedly be targeted by these subsidies are not receiving their portion fairly.
- b) In some cases, poor and needy who are living in remote or poor rural areas might not find the basic subsidized food items due to the far distance compared to urban ones.
- c) Subsidization of energy products in Egypt may also discourage technological innovation and inhibit development. Individuals as well as industries have little incentive to utilize energy-efficient technology, as the government is the entity that ultimately absorbs the loss. This occurs at the micro level with individuals and cars, as well as the macro level with manufactures and factories.
- d) The government is subsidizing goods with a huge amount of money but at the end of the day the ordinary citizen is paying a very high price with the difference going to the middle men who are really profiting from this system.
  - e) It opens the door before the Black markets.

## **51. what are main obstacles, resulted from the current subsidy system, that face any kind of reforms taken by the Egyptian government?**

*Ans.*

- 1- Inability to target the poor: 45% of the Egyptian population is below the poverty level of earning \$2 per day. A huge number of these people are unregistered. The proliferation of the informal sector has made it difficult to pinpoint who is poor and who is not. The government's ability to identify and target the needy is compromised.
- 2- Supporting and mitigating measures (mainly cash transfers): As long as the government is unable to clearly identify the needy, its ability to design and budget supporting and mitigating measures will be equally as negligible.
- 3- Inflation: The weight of food products in the Consumer Price Index is almost 40 %, and as a result any increase in food prices has a major effect on the inflation rate. Any growth in energy prices is also likely to have an impact on inflation, which in turn can increase the poverty rate, which is already soaring. The percentage of the population living below \$1.25 per day has increased from 20 % in 2010 to more than 26 % in 2014. This has had serious consequences on the political and social stability of the country, which cannot tolerate any more setbacks.
- 4- Political economy: The expected rise in inflation from increased prices, goods producers will likely pressure and threaten (explicitly and implicitly) the government. The probability of collusion among these producers is likely, as the majority of Egyptian industries are highly concentrated in certain sectors, such as steel, cement, and food processing. This pressure on the government has always made it reluctant to take the necessary step of fundamental change.

**52. By utilizing SWOT analysis, demonstrate the new bread rationing system that was adopted by the Egyptian government.**

*Ans.*

<b>Strength</b>	<b>Weakness</b>
<ol style="list-style-type: none"> <li>1. Strong Regulations over the distribution of subsidized flour.</li> <li>2. high-quality standards of subsidized bread.</li> <li>3. Reduce long waiting queues in front of bakeries.</li> <li>4. Encourages the consumers to consume less bread quantities.</li> </ol>	<ol style="list-style-type: none"> <li>1. Implementation of the system in some governorates only</li> <li>2. Weak punishment for smugglers and system's violators</li> <li>3. Using smart cards illegally</li> <li>4. The electronic system has many bugs</li> </ol>
<b>Opportunities</b>	<b>Threats</b>
<ol style="list-style-type: none"> <li>1. Improving nutrition by adding iron and vitamins to subsidized flour to Fight Anemia</li> <li>2. Increases the investment opportunities</li> </ol>	<ol style="list-style-type: none"> <li>1. Insufficiency of supply offices' infrastructure due to the increasing of beneficiaries</li> <li>2. 5. Non-updating of the beneficiaries' database results in miss-targeting.</li> </ol>

**53. What are factors that led the EU to shift towards a new CAP policy?**

*Ans.*

1. **economic** (including food security and globalization, a declining rate of productivity growth, price volatility, pressures on production costs due to high input prices and the deteriorating position of farmers in the food supply chain),
2. **environmental** (relating to resource efficiency, soil and water quality and threats to habitats and biodiversity)
3. **territorial** (where rural areas are faced with demographic, economic and social developments including depopulation and relocation of businesses).

**54. What is the main critique of the common agricultural policy (CAP)?**

CAP is heavily criticized for its detrimental effects on EU budget, agricultural production, and environment. Many economists believe that the CAP is unsustainable policy in the enlarged EU. This is because the CAP consumes a very large proportion of the EU's budget, i.e., the policy costs around half the EU annual budget. Overproduction is an economic problem resulted from adopting such policy. The EU cannot consume all its agricultural products, so it sells them cheaply to the developing countries. Furthermore, the CAP allows farmers to employ eco-unfriendly production techniques with harmful environmental outcomes.

## □ Part 4: Compare between the Following Terms

### 1. Direct effects of government intervention vs. indirect effects of government intervention.

*Ans.*

- **Direct effects:** the effects of government interventions that would be predicted if individuals did not change their behavior in response to the interventions.
- **Indirect effects:** the effects of government interventions that arise only because individuals change their behavior in response to the interventions.

### 2. Federal government vs. Local government

*Ans.*

- **Federal government:** The Federal government is responsible for the conduct of national affairs. Its areas of responsibility are stated in the Constitution and usually include defense and foreign affairs; trade, commerce and currency; immigration; postal services, telecommunications and broadcasting; air travel; most social services and pensions. The federal government is also involved, mainly through funding, in many things largely carried out by the states, such as health, education, environmental issues, industrial relations, etc. The power to tax is exclusive to the federal government. It usually imposes equal tax rates across states. In addition, it can run budget deficits.
- **Local Government:** The power of local governments is controlled by acts of state parliament. They are concerned with matters close to our local community, such as building regulations and development, public health, local roads and footpaths, parks and playing fields, libraries, local environmental issues, waste disposal, and many community services. It derives the power to tax and spend from the State. It can impose spending / taxing restrictions on itself, so different tax rates across states are possible. Local government cannot run the budget deficit.

### 3. A positive externality vs. a negative externality

*Ans.*

- A **positive externality** is one that has beneficial effects, such as the higher education that a segment of society attains which benefits the whole economy. Thus, without government intervention, the benefit of such externality is not factored into the price of the product and it priced higher than the level required to attain the optimal level of production.
- A **negative externality** has negative effects, of which the most common example is pollution, and it affects negatively everyone, even those who do not participate in the market. Thus, without government intervention, the cost of that pollution is not factored into the price of the product and it priced lower than the level required to attain the optimal level of production.

### 4. Productive efficiency vs. Allocative efficiency

*Ans.*

- **Productive efficiency** is a situation in which the economy could not produce any more of one good without sacrificing **production** of another good.

- **Allocative efficiency** is a state of the economy in which production represents consumer preferences; in particular, every good or service is produced up to the point where the last unit provides a marginal benefit to consumers equal to the marginal cost of producing.

#### 5. Horizontal Equity vs. Vertical Equity

*Ans.*

- **Horizontal Equity:** Everyone with the same ability to pay pays equal amount.
- **Vertical Equity:** Concerns proper relationship between tax burdens of individuals with different capabilities to pay.

#### 6. Revenue classification vs. Expenditure classification of the state budget

*Ans.*

- **Revenue classification:** Classification of revenues into various categories including: Tax revenues and Non-tax revenues.
- **Expenditure classification:** Classification of Expenditure into various categories including:
  - Administrative classification: classification by entity that is responsible for managing the public funds.
  - Economic classification: classification by type of expenditure, e.g., salaries, goods and services, transfers and interest payments, capital spending.
  - Functional classification: classification according to the purposes and objectives of expenditure, e.g., education, social security, housing.

#### 7. Draft Budget vs. Approved Budget

*Ans.*

- **Draft Budget:** A preliminary version of a government budget, which presents the government's proposed revenues and spending for a financial year.
- **Approved Budget:** The government budget plan, including any revisions, approved by the parliament.

#### 8. Approved Budget vs. General Budget Final Account

*Ans.*

- **Approved Budget:** The government budget plan, including any revisions, approved by the parliament.
- **General Budget Final Account:** The term “final accounts” means statements which are finally prepared to show the final actual figures of expenditure and revenues at the end of the fiscal year.

#### 9. Special Revenue Funds vs. Capital Projects Funds

*Ans.*

- **Special Revenue Funds:** They are funds account for the proceeds of specific revenue sources that are restricted for specified purposes. They Include resources and expenditures for operations, such as public libraries, when a separate tax is levied for their support.
- **Capital Projects Funds:** They are funds account for financial resources that are specified for the acquisition or construction of major capital facilities or improvements that benefit the public. A separate capital projects fund is created at the time the project is approved and ceases at its completion

## 10. Capital Projects Funds vs. Debt Service Funds

*Ans.*

- **Capital Projects Funds:** They are funds account for financial resources that are specified for the acquisition or construction of major capital facilities or improvements that benefit the public. A separate capital projects fund is created at the time the project is approved and ceases at its completion
- **Debt service funds:** They are funds account for the accumulation and use of resources for the payment of general long-term debt obligations. General long-term debt obligations include: principal and interest.

## 11. Balanced Budget Rule vs. Governance of budget Rule

*Ans.*

- **Balanced Budget Rule: Balanced Budget** rule requires that the state cannot spend more than its income. It requires a balance between the projected receipts and expenditures of the government.
- **Governance of budget Rule:** Governance of budget can be defined as encompassing the interests and incentives of individuals and actors governing the formulation, approval, execution and oversight of the Budget.

## 12. State's Public expenditure vs. State's overall uses

*Ans.*

- **State's Public expenditure:** Government expenditure includes all government consumption, investment, and transfer payments. This includes the following main items:
  - ✓ Wages and compensation of employees,
  - ✓ Purchase of goods and services,
  - ✓ Interest payments,
  - ✓ Subsidy, grants and social benefits,
  - ✓ Purchase of non-financial assets.
- **State's overall uses:** They show the total image for public uses, which include:
  - ✓ Expenditure
  - ✓ Acquisition of financial assets
  - ✓ Repayment of loans installments

## 13. Direct Taxes vs. Indirect Taxes

*Ans.*

- **Direct Taxes:** they are imposed on earned income, its burden cannot be transferred to others, only affects income earners. The most important of which are tax on income, profit and capital gains. It includes tax on individuals' income and tax on profits (corporate).
- **Indirect Taxes:** They are the taxes imposed on dealing with the income i.e. the way of spending it. It is paid by the final consumer of goods or services, expressed in the form of tax on goods and services (general tax on sales and services, taxes on local and imported goods, stamp duties, revenues development tax, social security taxes, entertainment taxes, world trading taxes and customs).

## □ Part 5: Analyze the Following Statements

**1. “public sector decisions affect private sector decisions in many ways.”**

*Ans.*

This can be explained through the long debate about the relationship between public-capital accumulation and private investment. As, higher public investment may "crowd out" private expenditure on capital goods, irrespective of the financing mechanism (including through levying taxes or issuing debt). On the other hand, higher government spending on infrastructure facilities (like roads, highways, and power) and/or health and education may have a complementary impact on private sector investment by raising the marginal productivity of private capital. It should be noted that resources for all government expenditures ultimately come from the private sector. Therefore, the overall impact of public sector decisions must be examined in the context of their impact on private sector behavior.

**2. “In studying the public finance, three main questions regarding its activities are considered”**

*Ans.*

- how does the government secure its revenues – both process and amounts?
- how are the revenues spent?
- how does the government make decisions or choices among alternatives?

**3. “In studying the public finance, a list of four main questions regarding its intervention in economic activities are considered”**

*Ans.*

- ✓ When should the government intervene in the economy?
- ✓ How might the government intervene?
- ✓ What is the effect of those interventions on economic outcomes?
- ✓ Why do governments choose to intervene in the way that they do?

**4. “In studying the public finance, a number of economic consequences of public policy are considered”**

*Ans.*

- Resource allocation: Allocation
- Income distribution: Distribution
- Level of economic activity: Stabilization

**5. “Mueller in “The Growth of Government” listed five explanations for public sector growth”**

*Ans.*

1. The government as provider of public goods and eliminator of externalities.
2. The government as redistributor of income and wealth.
3. Interest groups as a cause of government growth.
4. Bureaucracy as a cause of government growth.
5. Fiscal illusion as a cause of government growth.

**6. “The government is considered as eliminator of externalities”**

*Ans.*

Externalities are the benefits or costs of a product or its manufacture that affect people external to the market for the product. Under certain circumstances, externalities can be remedied through private negotiations. However, in most cases, externalities are widespread and affect many people, so they cannot be remedied by private parties. Instead, governments pass laws, taxes, and subsidies to mitigate the effects of negative externalities and promote positive externalities. This is usually done by taxing negative externalities and subsidizing positive externalities.

**7. “In the Wealth of Nations, Adam Smith emphasized four “justifiable” functions of government”**

*Ans.*

- The duty of protecting the society from violence and invasion by other independent societies;
- The duty of protecting every member of society from injustice and oppression of every other member of society;
- The duty of establishing and maintaining those highly beneficial public institutions;
- The duty of meeting expenses necessary for support of the sovereign

**8. “Governments perform traditional functions regarding collecting required funds as well as economic functions”**

*Ans.*

the traditional functions: governments aim at collecting the required amount of public revenue to fund public expenditures. Public expenditures, public revenue and particularly taxes may be considered to be the fundamental elements of public finance. Main traditional public expenditures include: legislative, social, and security.

The economic functions: The state’s economic function has become predominant particularly in the school, health care, social services and social security sectors.

**9. “With regards to the role of the state in the economy, two approaches have emerged”**

*Ans.*

1. State interventions are **undesirable** for the economy; therefore, they are rejected (**individualistic views**).
2. State interventions are **advocated** (**collectivist views**).

**10. “A government intervention is required in case of market failure”**

*Ans.*

Market Failure: in order to achieve three main elements: *efficiency, stability* and *fairness*. if the conditions for perfect competition are not met, a malfunction in the price mechanism will arise, which disturbs the allocation mechanism. Therefore, a government intervention is required.

**11. “A government intervention is required in case of macroeconomic failure”**

*Ans.*

Macroeconomic failure: It is indicated by instability in the *economic system* that usually suffers from cyclical inflation, a high rate of unemployment, low or even

negative growth of production or problems in the foreign trade balance, etc. in order to mitigate such failures a government intervention is required.

**12. “A government intervention is required in case of social injustice”**

*Ans.*

Social injustice: The state performs the redistribution function through two basic categories of tools:

- The first includes revenue (tax)
- and the other expenditures (transfers, grants and subsidies).

- First, a tax transfer mechanism may be implemented through a combination of progressive taxation of high incomes and transfers (subsidies) in favor of low-income households.
- Secondly, social justice can be achieved through the taxation of luxury goods combined with subsidies on goods for the low-income population.

**13. “The tax directors of major European countries are keen to see more certainty about the future of the fiscal regimes through the principle of stability of tax system”**

*Ans.*

The principle of stability of tax system indicates two type of fiscal stability:

- 1) Cyclical stability of tax base, which could be achieved through Tax diversification that involves the following types of taxes:
  - Personal income taxes
  - Property taxes
  - General sales or value added taxes
  - Excises
  - Corporate profit taxes
- 2) Revenue (adequacy) stability that requires achieving economic growth and high income, which are necessary for expanding required revenue sources.

**14. “The European Commission's tax policy strategy was based on an effective tax system, which must be transparent”**

*Ans.*

**The transparent tax system was implemented through the following criteria:**

- Adoption: Taxes must be adopted by legitimate process.
- Administration: Tax collection criteria must be objective, explicit, knowable, and fair.
- Compliance requirements: How tax is to be calculated should be clear to everyone.
- Amount of payment: Taxpayers should know how much tax they are paying and to whom they are paying it.

**15. “Environmental protection is one of Europe's key values. The EU has set clear policy objectives to achieve its environmental goals. The EU has utilized fiscal instruments to tackle the negative externalities”.**

*Ans.*

The EU has utilized the following two instruments:

- Emission taxes: Taxes on polluting emissions, which required the following actions:
  - A direct measurement of emissions, i.e., to measure the damages to society which are not paid for by its main actors.
  - Applying the last link principle, which means levying taxes from places where emissions into environment take place.
- Indirect taxes on specific goods and services: Taxes on products and services, which produce social costs (e.g., pollution and health costs).

**16. “Fiscal economists need to fully understand any weaknesses in the country's budget execution process”.**

*Ans.*

Fiscal economists need to understand the following questions regarding any weakness of the budget execution process including:

- ✓ Is it transparent?
- ✓ Are there clear lines of accountability?
- ✓ Is information on execution of the budget available on a timely, reliable, and accurate basis?
- ✓ Is it thus consistent with the principles of good governance?
- ✓ Is there any required actions through budget execution procedures to bring expenditures back on track to the budget provision; hold expenditures below budget, in response to below-target revenue developments.

**17. “A number of questions are required to be answered by fiscal economists and general budget advisors regarding a budget process”**

*Ans.*

- ✓ What are the different stages of the budget execution process?
- ✓ Who is responsible for budget execution?
- ✓ How can budget appropriations be revised during the year?
- ✓ How good is the information on outturn expenditure?
- ✓ What are the problems encountered in budget execution procedures?
- ✓ How can expenditures be adjusted in-year?
- ✓ How should "good governance" be pursued?

**18. “A well-functioning budgetary system ensures accountability”**

*Ans.*

A well-functioning budgetary system ensures accountability, in the sense that:

- ✓ Every action is transparent;
- ✓ Every participant is held accountable;
- ✓ Every action is properly documented and reported;
- ✓ Every action can be subject to independent, professional, and unbiased audit and review, e.g., Accountability State Authority

**19. “In addition to revenue and expenditure classifications of the state budget, there are other types of classifications”**

*Ans.*

Other types of classification:

- Classification by geographical location of the administrative unit;

- Classification beneficiaries of subsidies
- Classification of sources of financing (external loans and grants)
- Classification by program (subdivided by activities)

**20. “At any point in time, at least three state budget cycles overlap”**

*Ans.*

- 1) The preparation of next year’s budget,
- 2) The execution of current year’s budget,
- 3) The control of last year’s budget.

**21. “According to the IMF, Egypt faces a number of recent challenges regarding its budget deficit. Budget deficits grew and external pressures led to a fall in foreign exchange reserves”.**

*Ans.*

The mentioned challenges regarding its budget deficit and a fall in foreign exchange reserves are mainly due to:

- Increases related to global price rise of imported food commodities which in turn are connected to subsidy of supply commodities.
- Increases related to increases in wages
- Increases related to the cost of applying the minimum wages
- Increases related to the interest payable for the general debts according to their due dates
- Increases related to increasing burdens that afforded by general treasury of contribution in pensions funds.

**22. “Interest payments have grown significantly in recent years in Egypt as the government increasingly resorted to domestic borrowing to finance the widened deficit”**

*Ans.*

Interest payments are the interests produced from governmental loans as such loans are used to finance its activities. They are usually interests due for short and long term bonds or because of loans used to finance projects of general state’s plan. These include: Foreign Interest and Domestic Interest. Such interests are, in all, inevitable and it is important to point out that those interests reach the amount of 182.046 Million EGP representing 8.9 % of the total GDP.

**23. “Taxes are considered to be the most important source of financing the state general budget”**

*Ans.*

Taxes represent real revenue that supports the constantly growing governmental expenditure which the state has to assume in different fields. This source does not call for any financing obligations of behalf of the country's general budget. On the other hand, taxes are considered as one of the most important tools of the financial policy used by the government to accomplish the targets of the economic and social development plan while considering the social dimension.

**24. “Government is able to collect resources other than taxes, grants, receipts of financial assets, and borrowing”.**

*Ans.*

Other revenues mainly concentrate on surplus from Suez Canal and petroleum and surplus from other economic organizations, also profits of general companies besides other non-tax revenues.

**25. “Fiscal policy is considered an effective stabilization tool in EU”**

*Ans.*

One explanation of the importance of fiscal policy in this context is the large accumulation of government debt in most OECD countries in the 1980s and early 1990s. As a consequence, fiscal sustainability has become the main fiscal policy issue, and major reforms of the fiscal policy framework have been undertaken in nearly all OECD countries.

**26. “There are number of arguments why discretionary fiscal policy may be used in a less effective way as a stabilization tool than monetary policy”**

*Ans.*

- Decision lags are longer, as tax and expenditure changes have to go through a long parliamentary decision-making process, which is usually annual in contrast to the almost continuous decision-making process for monetary policy.
- The political character of fiscal policy decisions makes it much harder to reserve decisions when circumstances change than is the case for monetary policy.

**27. “The risk of an expansionary bias is much larger for fiscal policy than for monetary policy”**

*Ans.*

This is because the fiscal policy is run by policy-makers engaged in day-to-day politics, whereas the monetary policy has been delegated to independent central banks, which can take a longer view.

**28. “The size of automatic stabilizers in EU is positively correlated to a number of factors”**

*Ans.*

- ✓ The share of Government expenditure in GDP,
- ✓ Degree of tax progressivity,
- ✓ The generosity of unemployment compensation.

**29. “The fiscal rules in the EU are dependent on two main issues”**

*Ans.*

- ✓ The provisions in the Maastricht Treaty on the excessive deficit procedure.
- ✓ The Stability and Growth Pact (SGP), which is embodied in two regulations of the Ecofin Council and resolutions of the European Council.

**30. “The EU budget finances activities ranging from developing rural areas and conserving the environment to protecting external borders and promoting human rights”.**

*Ans.*

The EU budget finances six main categories of expenditure:

- **Growth:** aiming at enhancing competitiveness for growth and jobs.
- **Natural resources:** covering the common agricultural and common fisheries policies, and rural and environmental measures.
- **Security and citizenship:** covering justice, border protection, immigration and asylum, public health, consumer protection and culture.
- **Foreign policy:** including development assistance or humanitarian aid outside the EU.
- **Administration:** covering all the European institutions, pensions and European schools.
- **Compensations:** covering compensation resulted from the damage resulting from any crime.

**31. “Different types of subsidy systems that aim at alleviating poverty have been adopted by various countries such as Targeted Public Distribution System and In-Kind Transfer”**

*Ans.*

■ **Targeted Public Distribution System (in India)**

According to this system, the poor has been classified into three categories:

The first one is for the Above Poverty Line (APL), the second one is for the below Poverty Line (BPL), and the last one is for the Poorest of the Poor (POP).

the government will provide different volumes of subsidy to the poor based on the category of the poor.

■ **In-Kind Transfer (In Cuba)**

According to this system, all citizens are assigned to the same food amount through using ration booklet. This booklet allows all citizens to take their quota of basic food products such as sugar, milk, eggs, rice, etc.

**32. “Different types of subsidy systems that aim at alleviating poverty have been adopted by various countries such as Targeted Food Program, Cash Transfer, and Conditional cash transfer”**

*Ans.*

■ **Targeted Food Program (In Bangladesh)**

According to this system, subsidy has been provided to school children at pre-primary and primary stages especially at vulnerable areas.

■ **Cash Transfer (In Kenya)**

According to this system, the government has provided the unconditional cash transfers in order to alleviate poverty. the eligible households were identified based on some criteria such as if the household’s house is constructed from non-solid materials like mud, grass, etc.

■ **Conditional cash transfer (in Brazil)**

According to this system, in order to get a cash transfer, the poor households should prove that they send their children to schools. In addition, they have to prove that they take their children to health care centers on regular basis in order to check their health status.

# Exam's Template



Euro-Mediterranean Studies Programme

Academic Year: 2016-2017

Semester: 2<sup>nd</sup> Semester, final exam

Exam Date:



Course name: Economics of Public Finance in the Euro-Med Area

Course Code: EMS 802

Exam Duration:  
3 Hours

Total exam  
marks= 70

Exam pages:

**Part 1: Which of the following statements are true? [only correct the wrong answers] [20 points]**

Q1)

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Q20)

**Part 2: Define the Following Terms [10 points]**

Q1)

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Q5)

**Part 3: Answer the Following Questions [15 points]**

Q1)

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Q5)

**Part 4: Compare between the Following Terms [10 points]**

Q1)

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Q4)

**Part 5: Analyze the Following Statements [15 points]**

Q1)

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Q3)

End of the exam