

(a) Uncertain. Absolute poverty lines are defined in terms of minimum income or consumption levels required for basic necessities such as food, clothing, and shelter. ~~While~~ These poverty lines are used to define poverty rates. However, relative poverty lines which measure poverty ~~is~~ with respect to income distribution (e.g. relative to population median income) may also be useful. Further, policymakers should also employ poverty gap ratios ~~in~~ in order to measure the depth and intensity of poverty.

(b) Uncertain. If the increase in electricity rates means that consumers will face the true marginal cost of electricity supply - then this is efficient. ~~How~~ However, this will also be regressive from the perspective of low income households.

(c) Uncertain : The HST implies a tax increase and a price increase, and therefore deadweight loss. The reduction in income tax implies more after tax income, which would not necessarily eliminate the distortion (dead weight loss).

(d) False. A commodity tax results in a contraction of supply. A subsidy can be used to induce further output.

(e) Uncertain shadow prices = market prices in the absence of distortions / externalities

Ans 2 (a) 
$$0 = \frac{1}{(0.5 \times 0.5 \times 100)} = \frac{1}{25}$$

(b) 
$$0^* = \frac{1}{0.1 \times 1 \times 250} = \frac{1}{25}$$
 ,  $0^*$  is the same as  
 $P_a \downarrow$  ,  $P_c \uparrow$  and  $t \uparrow$

Difficult to say which minimizes Loss function as we do not know  $\alpha, \beta$

(c) still difficult as we do not know

$z(p_a)$  or  $g(p_c)$

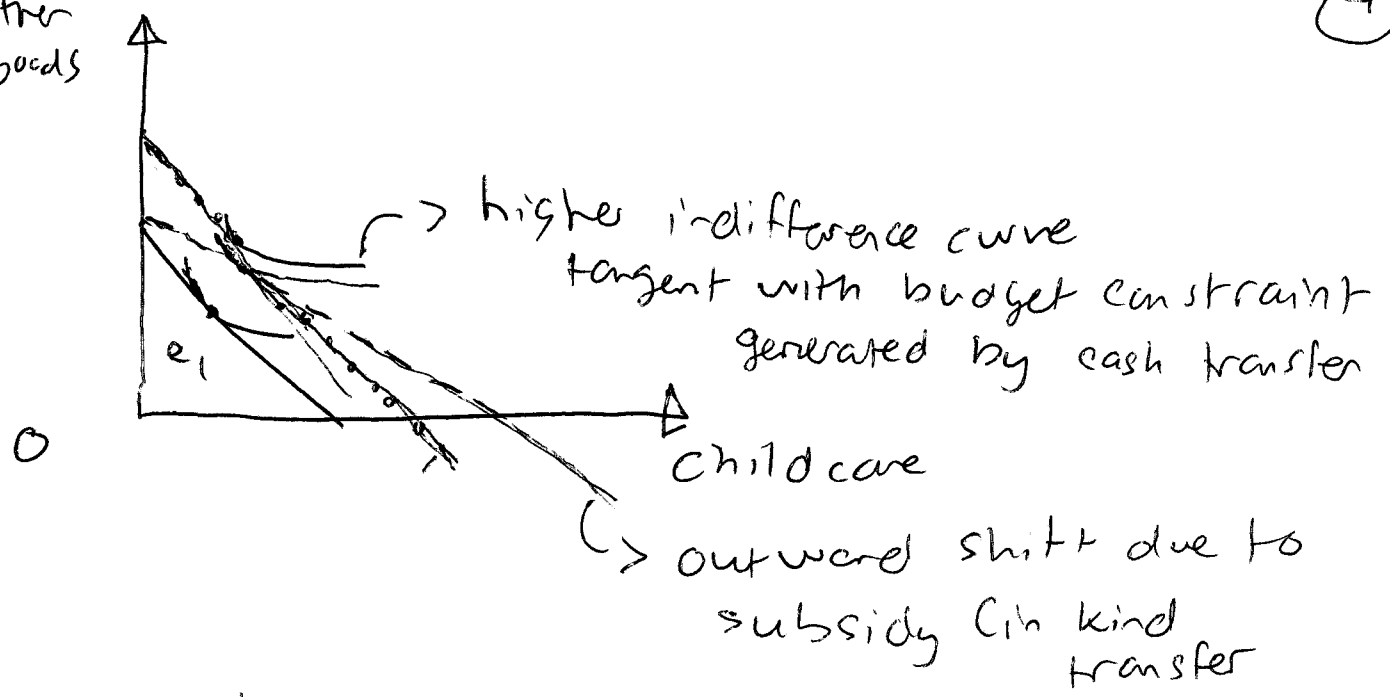
(d) low  $p_a, p_c$ , high  $f$

Ans 3

Theoretically cash transfers are superior to in kind transfers as individuals know how to best allocate resources according to their preferences. However, this is assuming that cash transfers and in kind transfers are of equivalent \$.

A cash transfer can be represented by an upward shift in budget constraint while an in kind transfer can be captured by a lower price or subsidy. If this is true then a cash transfer will push the individual to a higher indifference curve.

Y = other goods



- However, there are obvious reasons why cash transfers ~~and~~ may not work, e.g. are they being used for their intended purpose?
- The other point is that unlike the above diagram, \$200 a month per child is obviously not equivalent to subsidized day care.

For example, ~~subsidized day care in Quebec is \$8 per child per day~~ = it obviously costs more than \$200 a month to hire somebody to look after a child 8 hours a day, 20 days a month.

- ~~The~~ Another point is that offering subsidized day care has the advantage of increasing female labor supply

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- Further, government regulation through uniform day care standards might be useful in order to ensure minimum standards.
  - Finally, universal subsidized day care may be viewed as a means of efficient income redistribution, much like health care and education. It will allow children to start building human capital from an early age through early education as well as ~~permitting~~ enabling parents to seek further training and education themselves (by freeing up their time).
  - However, there is an opportunity cost. Funding a universal day care system will be very expensive (relative to \$200 a month) and implies less government spending in other areas.

Q4 Theoretically, a minimum wage has the potential of  $\uparrow$  poverty.

- The sharp  $\uparrow$  in the min wage will make those better off who still retain a job.
- This is because a higher min wage acts like a higher price floor making it more expensive for firms to hire and retain employees, leading to layoffs and more potential poverty.
- Data from Statistics Canada suggests that many minimum wage earners are teens and stay at home. Therefore, even if some are laid off this should not affect poverty as household income will not be significantly reduced.
- On the other hand, evidence from Sen, Rybszanski, and Van de Waal (2010) demonstrates that a  $\uparrow$  in the min wage

does  $\uparrow$  the percentage of population below low income cut offs (LICOs).

This is because income earned by minimum wage earners constitutes a significant portion of household income.

- The problem of unemployment might be worsened given the extremely sharp  $\uparrow$  in min wage will attract workers from outside New Westminister.
- Further, firms will have an incentive to relocate outside New Westminister rather than pay employees higher wages.
- If businesses do exit  $\Rightarrow$  this will result in a significant drop in local tax revenue.