

Public Economics ECS3704

Course structure



Learn without limits.

UNISA


college of
economic and
management sciences

Study unit 4: Equity and social welfare

- Another source of market failure
- Distribution of wealth and income
- Redistribution on Pareto grounds
- Externalities, insurance motive and altruism
- Fig. 5.1 (BCS)
- All points on PPC – ecn efficiency
- 2 Criteria – public policy - Bergson & Pareto
- Bergson – broader – welfare *improvement* even if one/more are harmed

Nozick's Entitlement Theory

- Pareto – Libertarian approach
 - Laissez faire – government caretaker of freedom
- No distributional policies, Nozick exception
- 3 principles of justice:
- Justice in acquisition
- Justice in transfer
- Rectification of injustice
- TRC in SA – apartheid – 01/03/60–05/12/93
 - Tom give back to Thandi – absence of injustice

Other Pareto criteria

- Redistributing income from rich to poor – Inequality – negative externalities on rich
- Crime & violence – quality of life of rich
- Lack of sanitation
- Direct transfers to poor
- Insurance motive – T-payments
- Rich gives up income
- Redistribution on Pareto grounds

Bergson criteria

- Redistribution of Y , even if it makes one/more worse off
- Social welfare function
- Cardinal/additive welfare function: $W=U_a+U_b$
- Measurability? Utility - Income
- Ordinal: $W=W(U_a,U_b)$
- Utility possibility frontier
- Fig. 5.2,5.3,5.4 and 5.5

Disincentive and savings effects of redistribution

