Economics 252 – Financial Markets

Spring 2011

Lecture 19: Public and Non-Profit Finance

April 18, 2011

Multiple Choice Questions

Question 22.1

Which of the following are examples from the lecture for nonprofit organizations?
(More than one answer may apply.)

(a) Peter Tufano's Doorways to Dreams.
(b) Dean Karlan's Innovations for Poverty Action.
(c) Robert Shiller's Case Shiller Weiss Incorporated.
(d) Wendy Kopp's Teach for America.

Question 22.2

Which of the following are justifications given in class for the existence of a corporate profits tax?
(More than one answer may apply.)

(a) The long-term goal of all governments in the world is the complete nationalization of the for-profit sector.
(b) Governments may have to step in for environmental damages beyond the limited liability of the company that has caused the damages, as exemplified by TEPCO in Japan following the earthquake from 2011.
(c) Governments may be forced to bail companies out or assist companies during bankruptcy proceedings, as exemplified by General Motors in the aftermath of the financial crisis from 2007-2008.
(d) A justification for the existence of a corporate profits tax is unnecessary, as this tax is miniscule in countries like the U.S., Canada, Japan, or Brazil.

Question 22.3

Who in the U.S. is affected by the so-called balanced budget rule?

(a) A state's operating budget typically has to be balanced. This does however not mean that states cannot go into debt, as states also have a capital budget, to which the balanced budget rule does not apply.

(b) The federal government must have a balanced budget at all times.

(c) After applying for Chapter 9 bankruptcy, a municipality has to have a balanced budget for 10 years, before it can start issuing tax-exempt municipal bonds again.

(d) Any corporation must satisfy the balanced budget rule, which means that a corporation's assets must be equal to its short-term liabilities.

Question 22.4

The social insurance system in the U.S. is commonly referred to with the abbreviation OASDI. What kinds of insurance does this abbreviation encompass?
(More than one answer may apply.)

(a) Old age insurance.
(b) Asset insurance.
(c) Survivors insurance.
(d) Disability insurance.

Question 22.5

Which innovations in the area of information technology enabled Germany to introduce the first successful social insurance system in the world?
(More than one answer may apply.)

(a) Paper.
(b) Carbon paper.
(c) The typewriter.
(d) Postal service.

Correct Answers

22.1: (a), (b), and (d)
22.2: (b) and (c)
22.3: (a)
22.4: (a), (c), (d)
22.5: (a), (b), (c), (d)