

End-of-chapter Questions

Chapter 21: Fiscal Federalism - the Assignment of Functions among Governments

1. What is a federal government (federalism)? What additional economic issues does it raise relative to having a single government in a nation?
2. Why do most economists assume that only the national government can or should attempt to redistribute income in a federal government?
3. Why are state (provincial) and local governments unlikely to be able to conduct effective macroeconomic policies within their jurisdictions?
4. What two assumptions did George Stigler make to justify assigning allocation functions to state and local governments in the U.S.? Do his assumptions imply that the national government should never undertake an allocation function? Explain.
5. In the context of a federal government, what is a perfect correspondence in trying to correct for externalities? What difficulties arise in trying to correct for externalities if there is not a perfect correspondence? Give some examples in support of your answer.
6. What are some of the drawbacks, both theoretical and practical, of assuming that only the national government is concerned with the distribution goal of achieving end-results equity or distributive justice?
7. Why can it not be assumed that every level of government within a federalist system has the standard individualistic social welfare function whose arguments are the utility functions of the citizens within their jurisdictions?
8.
 - a. How does the alternative dynastic social welfare structure proposed in the chapter avoid the congestion and incompatibility problems that are assumed to arise if governments other than the national government have a social welfare function?
 - b. How does the alternative dynastic social welfare structure achieve the interpersonal equity condition over all the citizens of the nation from the national government's perspective?

9. a. What are the relative advantages and disadvantages of the standard model in which only the national government has a social welfare function versus the alternative model of dynastic social welfare functions presented in the chapter?
- b. Which model most closely describes the approach to redistribution in the U.S.?