

Economic Evaluation

Pre-exam lecture

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Assignments

- **What is to be taxed?**

- Remember reason behind rate: **proxy for something**
- r_z proxies productivity of private sector **X**
- ρ_z proxies safe returns of investment **✓**

Assignments

- **What is to be taxed?**

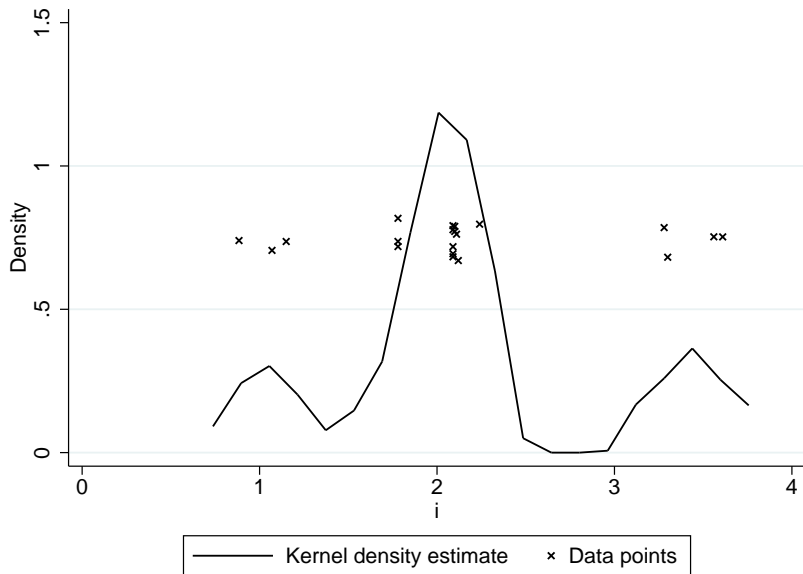
- Remember reason behind rate: **proxy for something**
- r_z proxies productivity of private sector **X**
- p_z proxies safe returns of investment **✓**

- **Adjusting for inflation**

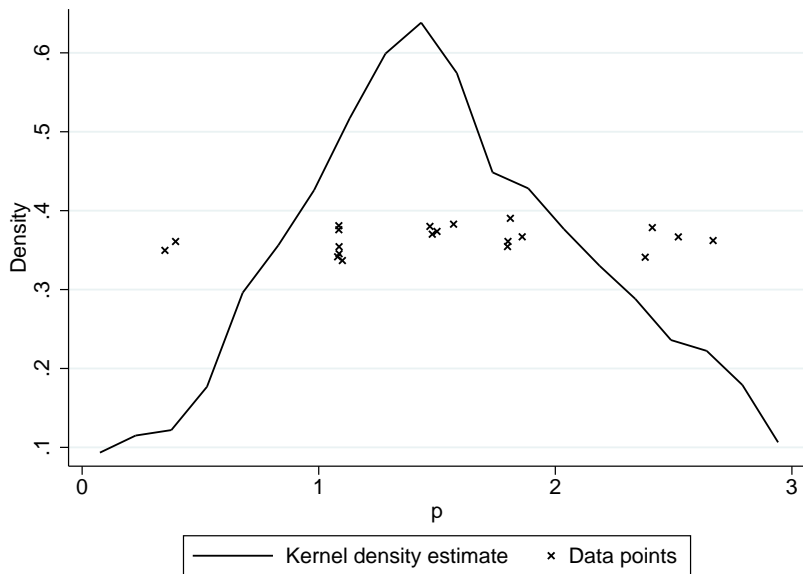
$$Y_t = Y_{t-1}(1 + r_t)(1 + e_t); \quad \frac{Y_t}{Y_{t-1}} = 1 + i_t$$

$$r_t = \frac{1 + i_t}{1 + e_t} - 1 = \frac{i_t - e_t}{1 + e_t}$$

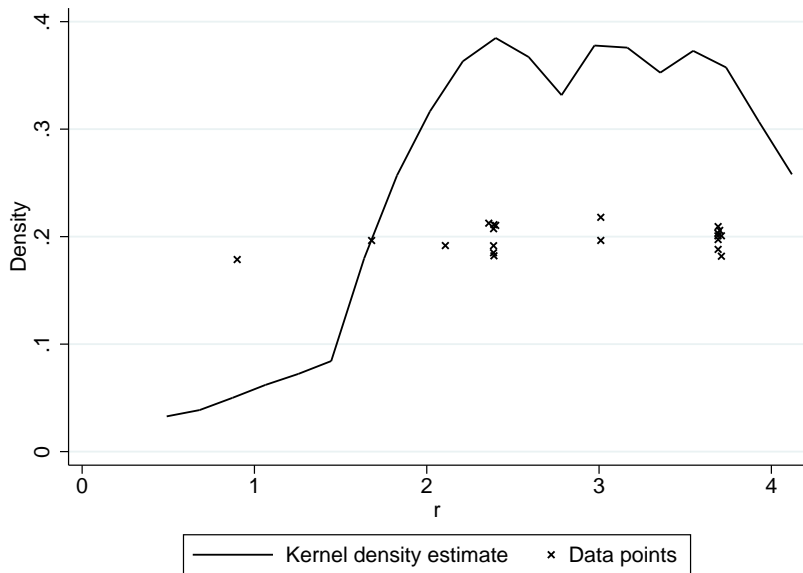
Your estimates - i



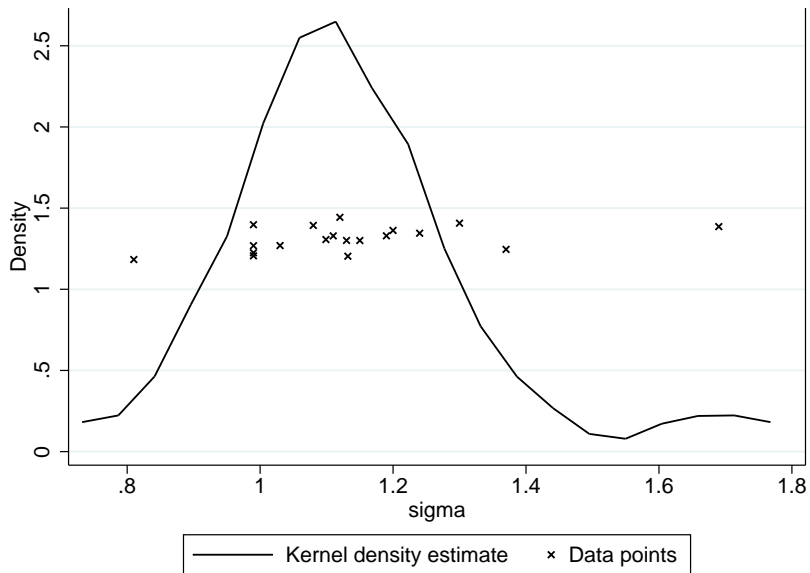
Your estimates - ρ_z



Your estimates - r_z



Your estimates - θ



Shadow price of capital

- **SPC cannot be < 1**

$$\theta = \frac{(r_z + \delta)(1 - f)}{p_z - r_z f + \delta(1 - f)} = \frac{r_z - r_z f + \delta(1 - f)}{p_z - r_z f + \delta(1 - f)}$$

Short question

The first rule is to consider all reductions in transfers via the program as a cost to the participant. The second rule is to consider all earnings due solely to an increase in wages as benefit to the participant. The third rule is that only part of the earnings due to an increase in hours worked should be counted as benefits. (The third rule is rarely followed in practice, and instead approximated by counting job expenditures as costs.)

Big question

1 Estimate demand curves for rainy and sunny weather

- *Hint: use ratio attendance/population*

2 Calculate social surplus in each case

- Sun/rain and good soil/bad soil
- Full triangle area (Σ of willingnesses to pay)

3 Value of information

