End-of-chapter Questions
Chapter 5: Applying the Social Welfare Function

1. What are Atkinson's three general assumptions to be used in applying a social welfare function? Do you believe each of them is realistic?

2. If the government can use lump-sum taxes and transfers, what is the implication of Atkinson's three general assumptions in applying a social welfare function? Is this a reasonable implication in your view?

3. a. What does Okun's Leaky Bucket symbolize?
    b. What is the mainstream justification for allowing inequality if one adopts Atkinson's three assumptions, and what role does Okun's Leaky Bucket play in that justification?
    c. If one adopts Atkinson's three assumptions, how does society achieve the best balance between efficiency and equity?

4. a. What is Atkinson's specific social welfare function?
    b. Show that it is consistent with Atkinson's three general assumptions for applying a social welfare function.
    c. How does it incorporate a concern for inequality?

5. a. Given Atkinson's specific social welfare function, what values of e are consistent with the Benthamite/Utilitarian social welfare function? With the Rawlsian social welfare function? Demonstrate each result.
    b. As e rises, why does the concern for inequality rise?

6. Consider the following distributions of income for a three-person economy.

	Y_1	Y_2	Y_3
A	1	4	16
B	3	9	9

    a. Which one has higher social welfare under Atkinson's specific social welfare function with $e=\frac{1}{2}$?
    b. Would the one you chose have higher social welfare for all difference values of e? Explain.

9. What is the equally distributed equivalent level of income and how is it used to generate an income measure of the cost of inequality? Assume Atkinson's specific social welfare function in answering the question.
10. How did Harberger use Atkinson's specific social welfare function to argue that the U.S. does not care much about inequality? He made the argument in the late 1960s. If he were to undertake the same exercise today, is he likely to reach the same conclusion? Explain.
11. What is a transition probability matrix and how does it relate to the goal of social mobility? What matrix would generate the least amount of social mobility? And the highest amount of social mobility? Explain. (Assume that there are three income classes.)
12. Why might social mobility create a tension between society's quest for both end-results and process equity?