

End-of-chapter Questions

Chapter 11: Practical Issues in Designing Transfers to the Poor

1. What are the advantages and disadvantages of broad-based versus targeted aid for giving transfers to the lowest income groups? (Assume the broad-based aid uses a linear credit income tax.)
2. What is a negative income tax? To what extent is it a compromise between broad-based and targeted aid?
3.
 - a. What are the three goals mentioned in the text for targeted aid to the poor?
 - b. What is the standard formula for giving cash to the poor?
 - c. Can the standard formula achieve the three goals? Explain.
4.
 - a. According to the labor-leisure model, why is the standard formula for giving cash to the poor unlikely to promote work incentives among the poor?
 - b. According to the labor-leisure model, why is any formula for giving cash to the poor likely to encounter some difficulty in promoting work incentives among the poor?
5. What is workfare and how was it featured in the TANF program, when TANF replaced AFDC in 1996?
6.
 - a. How did the EITC attempt to overcome some of the work disincentive problems under TANF?
 - b. What is the notch problem with EITC-style subsidies?
 - c. How does the EITC attempt to overcome the notch problem and what are some of the difficulties with the attempted solution?