

Economics of the Public Sector

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Course description

This course provides a basis for the economic analysis of public policy issues. It analyzes the role of public sector in the economic system, its functions, management techniques, taxation, public goods provision, methods of efficiency evaluation, fiscal federalism.

The focus of the course is on the main parts of public finance — taxation and government expenditures. Issues related to the role of the state, public choice, management of public assets and liabilities are also examined.

The prerequisites of the course are intermediate microeconomics and macroeconomics, economic policy theory, calculus.

Teaching objectives

The main aim of the course is to develop analytical tools and their application to key policy issues relating to the spending, taxation and financial activities of the government. After studying the course students should know main theoretical concepts and models, be able to analyze the influence of taxation and public spending on the economy, discuss different questions, connected with public sector economics, and solve problems.

Teaching methods

During the course following methods and teaching forms are used:

- Lectures
- Classes
- Tutorials
- Self study tasks
- Writing of the essay.

Student's self-study includes studying theoretical concepts, reading publications about current economic problems (referred to public sector), solving to homework tasks, and writing the essays.

Assessment

Control takes the following forms:

- written home assignments (4);
- essay (2000 words);
- midterm exam (120 min.),
- final exam (120 min).

Grade determination

Course grade is determined by:

- home assignments (10%);
- class discussions and presentations (10%);
- essay (20%);
- midterm exam (25%);
- final exam (35%).

Main reading

1. Atkinson, A. and J. Stiglitz, Lectures in Public Economics, McGraw–Hill, 1980. /Русский перевод: Аткинсон Э.Б., Стиглиц Дж. Лекции по экономической теории государственного сектора. М.: Аспект Пресс, 1995.
2. Connolly, S. and A. Munro, Economics of the Public Sector. Prentice Hall Europe, 1999.
3. Stiglitz, J. Economics of the public Sector, (3rd ed.), Norton, 1999. /Русский перевод: Стиглиц Дж. Экономика государственного сектора. Изд-во Московского университета: ИНФРА–М, 1997.
4. Якобсон Л.И. Государственный сектор экономики. Экономическая теория и политика. М.: ГУ–ВШЭ, 2000.

Additional reading

1. Auerbach and M. Feldstein, Handbook of Public economics. Vol. 1–2. (2nd ed.). North-Holland, 1990.
2. Barr, N. The Economics of the Welfare State, (3rd ed.), Oxford University Press, 1998.
3. Brown, C. and P. Jackson, Public Sector Economics. (4th ed.) Blackwell, 1996.
4. Cullis, J. and P. Jones, Public Finance and Public Choice: Analytical Perspectives. London: McGraw–Hill, 1992.
5. Le Grand, J. and W. Barlett, eds. Quasi–Markets and Social Policy, Macmillan, 1993.
6. Hyman Public Finance: A Contrporary Application of Theory to Policy. (3rd ed.), 1990.
7. Kienzle, E. Study Guide and Readings for Stiglitz’s Economics of the Public Sector. (2nd ed.) W.W. Norton and Company, 1989.
8. Mueller, Public Choice - 2. Cambridge University Press, 1989.
9. Musgrave, R. and P. Musgrave, Public Finance in Theory and Practice. (5th ed.) McGraw–Hill, 1989.
10. Niskanen, W. Bureaucracy and Public Economics. The Locke institute, 1994.
11. Public Finance: Selected readings. Edited by R.W. Houghton, Penguin Books, 1970.
12. Rosen, H. Public Finance. (2nd ed.), Irwin, 1988.

Internet resources and databases

1. <http://econ.worldbank.org/> — World Bank Research.
2. <http://www.nber.org/> — National Bureau of Economic Research (USA).
3. <http://www.nber.org/papers/> — working papers.
4. <http://www.aspe.spb.ru/> — Ассоциация исследователей экономики общественного сектора.

5. <http://www.cefir.ru/papers.html> — Centre for Economic and Financial Research, Центр экономических и финансовых исследований и разработок.
6. <http://www.iety.ru> — Институт экономики переходного периода (ИЭПП)
7. <http://www.ippr.org.uk> — Institute for Public Policy Research (UK).
8. <http://stat.hse.ru/> — Статистические данные. На сайте также собраны ссылки на экономико-статистические ресурсы (журнальные базы данных, сайты органов государственного управления и др.).

Course outline

1. Equity and Efficiency Principles

Pareto efficiency versus alternative criteria. Equity and efficiency. Defining a social welfare function. Alternative theories of the role of the state. Vertical equity and horizontal equity. Redistribution and its effects. The Lorenz curve.

(ST chs. 3, 5; Barr chs. 3, 4, 6; AS ch. 11; CM chs. 1,3; ЯК гл. 1, 3)

2. Market Failure

The first and the second fundamental theorems of welfare economics. Source of market failure: competition failure, incomplete markets, information failure, externalities, public goods. The theory of externalities. Private bargaining solutions versus government intervention. Pigovian taxes. Alternative government policies for pollution control. Coase theorem. The theory of public goods. Efficiency conditions for public goods. Lindahl equilibrium. Second-best principle.

(ST chs. 3, 4, 6; AS chs. 1 (§ 1–2), 9, 16; CM chs. 2, 4, 5, 6; ЯК гл. 1, 2)

3. Public Choice

Public mechanisms for allocating resources: problems of eliciting preferences and reconciling differing views. Majority voting: the median voter theory and the voting paradox. Arrow's Impossibility Theorem. Special interest groups. Rent-seeking behaviour. Theory of bureaucracy. "Principal — agent" problem. Government failure.

(ST chs. 7, 8; AS ch. 10; CM chs. 8, 9; ЯК гл. 4, 5)

4. Introduction to Taxation

Types of taxes. The five desirable characteristics of a tax system. Tax incidence in competitive and monopolised markets. DWL and price elasticity. Equivalent taxes.

(ST chs. 17, 19; AS chs. 2, 5; CM ch. 10; ЯК гл. 6)

5. Taxation and economic efficiency

Taxation of products. Taxes and labour supply: taxes and the individual budget constraint; income and substitution effects; non-linearities due to progressive taxation. Taxation of capital. Taxes and savings: different models of savings; national savings versus personal savings. Impact on risk taking. Taxes and investment: domestic and international issues. Achieving tax neutrality. Effects of globalisation.

(*ST ch. 18, 21, 23; AS chs. 6, 7; CM chs. 11, 12, 13; ЯК гл. 7, 8*)

6. Optimal Taxation and Tax evasion

Optimal commodity taxation: the Ramsey rule. Distributional considerations. Modelling tax evasion. Policies to reduce tax evasion.

(*ST chs. 20, 25; AS chs. 12, 14; CM ch. 11; ЯК гл. 9*)

7. The Analysis of Expenditure Policy

Alternative forms of government intervention. Benefits in cash and in kind. Interdependent preferences. Private sector responses to government programs. Income and substitution effects. Distributional consequences. Poverty trap.

(*ST ch. 10; ЯК гл. 10*)

8. Social Insurance, Welfare Programs and the Redistribution of Income

Information problems and the market for insurance. The role of social insurance. The case of unemployment insurance. Health care. Retirement pensions: funded and “pay-as-you-go” state pensions. Efficiency: effects on savings and retirement decisions. Approaches to income support. Welfare programs, targeting and incentives. Means-testing. The contributory principle. Integrating taxes and benefits.

(*ST chs. 14, 15; Barr chs. 5, 8, 9, 10, 12; CM chs. 15, 16, 18; ЯК гл. 10*)

9. Cost-Benefit Analysis

Private cost-benefit analysis. NPV and IRR methods. Social cost-benefit analysis. Measuring non-monetized costs and benefits. Shadow prices and market prices. Discount rate for social cost-benefit analysis. The evaluation of risk.

(*ST ch. 10; AS ch. 15; CM ch. 7; ЯК гл. 12*)

10. Fiscal Federalism

The division of responsibilities. Principles of fiscal federalism: club theory and local public goods, Tiebout hypothesis. Production versus finance. The incidence applied to local public finance. Capitalisation. Problems of multi-jurisdictional taxation.

(*ST chs. 26, 27; AS ch. 17; CM ch. 24; ЯК гл. 13*)

11. Managing the Public Sector's Assets and Liabilities

Privatisation: efficiency and equity arguments about state intervention. Forms of intervention. Public versus private ownership. Competition and quasi-markets. Regulation. Managing public sector liabilities: issues in domestic and external debt management.

(ST ch. 28; CM chs. 21, 22; ЯК гл. 11)

Distribution of hours

#	Topic	Total hours	Contact hours		Self study
			Lectures	Seminars	
1.	Equity and Efficiency Principles	20	4	4	12
2.	Market Failure	8	2	2	4
3.	Public Choice	20	4	4	12
4.	Introduction to taxation	8	2	2	4
5.	Taxation and economic efficiency	16	2	2	12
6.	Optimal Taxation and Tax evasion	20	4	4	12
7.	The Analysis of Expenditure Policy	8	2	2	4
8.	Social Insurance, Welfare Programs and the Redistribution of Income	20	4	4	12
9.	Cost-Benefit Analysis	14	2	2	10
10.	Fiscal Federalism	20	4	4	12
11.	Managing the Public Sector's Assets and Liabilities	8	2	2	4
Total:		162	32	32	98