

Economics of the Public Sector. Syllabus

Course description

Lecturer: Natalia V. Rakuta

Class teacher: Natalia V. Rakuta

Prerequisites: Intermediate microeconomics, Calculus

Course Type: elective

Learning 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.

Learning Outcomes

After studying the course students will:

- know main theoretical concepts and models,
- be able to analyze the influence of taxation and public spending on the economy,
- be able to discuss different questions, connected with public sector economics, and solve problems.

Course plan

1. Introduction to Public Economics

Introduction. Public Economics. Subject and methods. Government. Historical development. Measurements. Revenues and expenditures. Functions of the Public sector. The minimal state. Market failure. Redistribution.

2. Market Failure

The first and the second fundamental theorems of welfare economics. Pareto efficiency. Source of market failure: competition failure, incomplete markets, information failure, externalities, public goods. The theory of externalities. Coase theorem. Pigouvian taxation. The theory of public goods. Club goods and local public goods. Efficiency conditions for public goods. Mechanism design. Private provision of public goods. Second-best principle. Imperfect competition and government regulation. Welfare loss. Asymmetric information and government solutions.

3. Voting

Public mechanisms for allocating resources: problems of eliciting preferences and reconciling differing views. Voting. Majority voting: the median voter theory and the voting paradox. Arrow's Impossibility Theorem.

4. Rent-seeking

Special interest groups. Rent-seeking behaviour. Controlling rent-seeking. Theory of bureaucracy. "Principal - agent" problem. Government failure.

5. Income, inequality and poverty

Pareto efficiency versus alternative criteria. Equity and efficiency. Social welfare functions. Alternative theories of the role of the state. Redistribution and its effects. Inequality and poverty.

6. Commodity 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. Achieving tax neutrality. Effects of globalisation. Optimal commodity taxation: the Ramsey rule.

7. Income taxation

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. Distributional considerations. Modelling tax evasion. Policies to reduce tax evasion.

8. Theories of the public sector

The size of public expenditures. Wagner's law, Baumol's law, a political model, budget-setting, etc. Public provision versus public procurement. Efficiency of public expenditures. Cost-benefit analysis.

9. Social Insurance and Welfare Programs

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.

10. 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.

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.

12. Multiple Jurisdictions

Fiscal federalism. Arguments for multi-level government. 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. Fiscal competition: problems of multi-jurisdictional taxation; income distribution; inter-governmental transfers.

Distribution of hours

#	Topic	Total hours	Contact hours		Self study
			Lectures	Seminars	
1.	Introduction to Public Economics	12	2	2	8
2.	Market Failure	16	4	4	8
3.	Voting	14	4	2	8
4.	Rent-seeking	12	2	2	8
5.	Income, inequality and poverty	12	2	2	8
6.	Commodity taxation	16	4	4	8
7.	Income taxation	14	4	2	8
8.	Theories of the public sector	12	2	2	8
9.	Social Insurance and Welfare Programs	14	4	2	8
10.	Cost-Benefit Analysis	12	2	2	8
11.	Managing the Public Sector's Assets and Liabilities	12	2	2	8
12.	Multiple Jurisdictions	16	4	2	10
Total:		162	36	28	98

Reading list

Required:

1. Hindriks, J. and G.D. Myles *Intermediate Public Economics*, (2nd ed.), Cambridge: MIT Press, 2013
2. J.Stiglitz, *Economics of the Public Sector*, (3rd ed.), Norton, 1999

Optional:

1. Atkinson, A. and J. Stiglitz, *Lectures in Public Economics*, McGraw-Hill, 1980.
2. Barr, N. *The Economics of the Welfare State*, 4th ed. – Oxford: Oxford University Press, 2004.
3. Connolly, S. and A. Munro, *Economics of the Public Sector*. Prentice Hall Europe, 1999
4. Hillman A. L. *Public Finance and Public Policy: Responsibilities and Limitations of Government*. Cambridge: Cambridge University Press, 2003 (или более поздние издания)
5. Mueller, D.C. *Public Choice III*. Cambridge: Cambridge University Press, 2003 (или более поздние издания)
6. Rosen H., Gayer T., Guell R. *Public Finance*, McGraw-Hill, 2005.

Knowledge Assessment

Control takes the following forms:

- class participation;
- 2 group presentations;
- 2 written home assignments;
- 2 midterm exams (70 min. each),
- final exam (80 min).

Grading System

Course grade consists of two parts – cumulative grade (CG) and final exam grade (FEG).

Cumulative grade includes:

- class participation (15%);
- home assignments (15%);
- group presentations (10%);
- midterm exams (30% each).

Total mark = $0.6 * CG + 0.4 * FEG$

Methods of Instruction

During the course following methods and teaching forms are used:

- Lectures
- Classes
- Group presentations

- Self-study tasks

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