



MACQUARIE UNIVERSITY

**Division of Economic and Financial Studies
Department of Economics**

STUDY GUIDE

ECON853 ECONOMICS OF PUBLIC ISSUES

2005

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DIVISION OF ECONOMIC AND FINANCIAL STUDIES

ECON853 ECONOMICS OF PUBLIC ISSUES 2005

OBJECTIVES AND STRUCTURE OF THE UNIT

The aim of this unit is to study the role of economic theory and analysis in informing decision-making on matters of public policy. Appropriate theory and analytical methods will be outlined and discussed, and their use in considering particular issues will be explored. The unit is structured partly around particular theories or methods of importance to the analysis of public policy, and partly around specific policy issues themselves.

The staff member in charge of this unit is **Professor David Throsby** (Room C5C313, phone extn. 8474). The other staff members involved in the unit are **Associate Professor Ronald Ripple** (Room C5C-364, phone extn. 7063), Dr W. Kathy Tannous (Room C5C-341, phone extn. 8496) and **Dr Sean Turnell** (Room C5C-380, phone extn. 8493).

The unit will comprise 12 three-hour sessions, given on Mondays from 6.00pm-9.00pm in room W5A-101.

The unit will cover economic aspects of the following 12 topics:

Topic 1	Education
Topic 2	Foreign Student Flows
Topic 3	The Environment
Topic 4	Sustainable Development
Topic 5	Climate Change
Topic 6	Labour Standards and Trade
Topic 7	Financial Institutions
Topic 8	The Voluntary Nonprofit Sector
Topic 9	Security and Defence
Topic 10	Tourism
Topic 11	Cultural Heritage
Topic 12	Energy Resource Development

The precise dates for each topic are shown in the table overleaf.

Dates and topics are as follows.

WEEK NO.	DATE	TOPIC NO.	TOPIC	LECTURER
1	1 August	1	Education	Professor Throsby
2	8 August	2	Foreign students	Professor Throsby
3	15 August	3	Environment	Professor Throsby
4	22 August	4	Sustainable development	Professor Throsby
5	29 August	5	Climate change	Professor Throsby
6	5 September	6	Labour standards	Dr Turnell
7	12 September	7	Financial institutions	Dr Turnell

MID-SEMESTER BREAK

8	3 October	Public Holiday - No Class		
9	10 October	8	Nonprofit sector	Dr Tannous
10	17 October	9	Security and Defence	Professor Throsby
11	24 October	10	Tourism	Professor Throsby
12	31 October	11	Cultural heritage	Professor Throsby
13	7 November	12	Energy	Assoc. Prof. Ripple

Sessions will begin promptly at 6.05pm. Generally each session will comprise a mixture of lecture time, progress reviews and class discussion. There will be ample scope for student questions, participation and interaction.

ASSESSMENT

Assessment in this unit will be on the basis of the three assignments, plus class attendance and participation. **There will be no final exam.**

It is very much in your own interests to attend all lecture sessions in this unit. The nature of the unit is such that the material covered cannot be adequately comprehended simply by reading the references set. Attending to the lecturers' syntheses of the material and participating in class discussion are important components of the learning process.

The weightings used in the assessment process will be:

	Marks
Assignments (30 marks each)	90
Class attendance and participation	10
TOTAL	<u>100</u>

It should be noted that students are required to achieve a satisfactory mark in **both** of the above components of the assessment.

Final grades will be awarded according to the Macquarie University grading system of HD, D, Cr, P, PC, F. Note that the indicative grades given in the *Guide to the Submission of Assignments* handout are a rough guide only, and do not necessarily correspond precisely with cut-off points that may be used in determining the overall final grades in the unit.

ASSIGNMENTS

Three written assignments of 2,000 words each are required. For each assignment you will be asked to choose ONE out of three or four specific questions. Instructions for submission are provided in a separate handout. Topics covered and due dates are as follows:

Assignment No.	Covering Topics Nos.	Will be given out on:	FINAL date for submission is 6 pm on
1	1 - 4	Monday 22 August	Monday 12 September
2	5 - 8	Monday 10 October	Monday 31 October
3	9 - 12	Monday 7 November	Monday 28 November

UNIT OUTLINE AND READING GUIDE

The outline below provides a detailed reading list for the topics covered. Further references may be provided as the unit proceeds. Students are not expected to read all the references given. Students should, however, be prepared to seek out at least some readings under each topic. Many of the readings for this unit are held in Special Reserve in the Library. A more detailed outline of the subject matter covered under each topic will be handed out each week, together with several Review Questions to help students monitor their progress in the topic.

Topic 1 The Economics of Education

Nature of education as a mixed good
Private benefits of education
Education as a social investment
Financing education in Australia

References

- Johnes, Geraint, (1993) *The Economics of Education*, London: Macmillan.
- Psacharopoulos, George (ed.), (1987) *Economics of Education Research and Studies*, Oxford: Pergamon.
- Psacharopoulos, George and Maureen Woodhall, (1985) *Education for Development: An Analysis of Investment Choices*, New York: Oxford University Press.
- Mingat, Alain and Jee-Peng Tan, (1988) *Analytical Tools for Sector Work in Education*, Baltimore: Johns Hopkins University Press.
- Chapman, Bruce and T.T. Chia, (1994) *Income Contingent Charges for Higher Education: Theory, Policy and Data from the Unique Australian Experiment*, Canberra: ANU Centre for Economic Policy Research, Discussion Paper No. 307.
- OECD, (1998) *Redefining Tertiary Education*, Paris: OECD.
- Delors, Jacques (ed.), (1998) *Education for the Twenty-first Century: Issues and Prospects*, Paris: UNESCO.
- Borland, Jeff *et al.*, (2000) *Returns to Investment in Higher Education* The Melbourne Economics of Higher Education Research Program Report No. 1, Institute of Applied Economic and Social Research, University of Melbourne.
- Chapman, Bruce and Glenn Withers, (2001) "Human capital accumulation: education and immigration", in John Nieuwenhuysen *et al.* (eds.), *Reshaping Australia's Economy: Growth with Equity and Sustainability*, Melbourne: Cambridge University Press, pp. 242-267.
- Li, Haizheng, (2003) "Economic transition and return to education in China", *Economics of Education Review*, 22 (3): 317-328.
- Chapman, Bruce, (2001) "Australian higher education financing: issues for reform", *Australian Economic Review*, 34 (2): 195-204.
- Abbott, Malcolm and Hristos Doucouliagos (2004) "Research output of Australian universities", *Education Economics*, 12(3): 251-265.

Topic 2 The Economics of Foreign Student Flows

Foreign student flows in higher education
Cost-benefit analysis of foreign students

References

- Throsby, C.D., (1986) "Economic aspects of the foreign student question", *Economic Record*, 62 (179): 400-414.
- Heaton, Christopher and David Throsby, (1998) "Benefit-cost analysis of foreign student flows from developing countries: the case of postgraduate education", *Economics of Education Review*, 17 (2): 117-126.
- Blaug, Mark, (1981) "The economic costs and benefits of overseas students", in Peter Williams (ed.), *The Overseas Student Question: Studies for a Policy*, London: Heinemann, pp. 47-90.
- Jenkins, H.M., (1983) "Economics: analysing the costs and benefits", in H.M. Jenkins *et al.* (eds.), *Education of Students from Other Nations*, San Francisco: Jossey-Bass, pp. 237-250.
- Chisti, S., (1984) "Economic costs and benefits of educating foreign students in the United States", *Research in Higher Education*, 21: 397-414.
- Baker, Meredith, John Creedy and David Johnson, (1996) *Financing and Effects of Internationalisation in Higher Education: an Australian Country Study*, Canberra: Australian Government Publishing Service, for the Evaluations and Investigations Program, Department of Employment, Education, Training and Youth Affairs.
- Throsby, David, (1998) *Financing and Effects of Internationalisation in Higher Education: The Economic Costs and Benefits of International Student Flows*, Paris: OECD.
- Kim, Jinyoung, (1998) "Economic analysis of foreign education and students abroad", *Journal of Development Economics*, 56 (2): 337-365.
- Borgas, George J., (2004) *Do foreign students crowd out native students from graduate programs?* Washington DC: National Bureau of Economic Research Working Paper No. 10349.
- Kendall, Timothy, (2004) "Exporting Australian educational services to China", *Journal of Higher Education Policy and Management*, 26 (1): 23-33.

Topic 3 The Economics of the Environment

Environmental problems as externalities
Economics of natural resources
Natural capital and ecological economics
Measuring the value of environmental amenity

References

- Pearce, David W. and R. Kerry Turner, (1990) *Economics of Natural Resources and the Environment*, London: Harvester Wheatsheaf.
- Throsby, David, (1993) "The economy, the environment and the tax system", in Dodo Thampapillai (ed) *Taxation and the Environment*, Sydney: Australian Tax Research Foundation.
- Jansson, Ann-Mari *et al.* (eds.), (1994) *Investing in Natural Capital: the Ecological Economics Approach to Sustainability*, Washington DC: Island Press.
- El Serafy, Salah, (1991) "The environment as capital", in Robert Costanza (ed.), *Ecological Economics: the Science and Management of Sustainability*, New York: Columbia University Press, pp. 168-175.
- National Research Council, (1994) *Assigning Economic Value to Natural Resources*, Washington DC: National Academy Press.
- OECD, (1991) *Guidelines for the Application of Economic Instruments in Environmental Policy*, Paris: OECD Environment Committee Meeting at Ministerial Level, Background Paper No. 1.
- Imber, David *et al.*, (1991) *A Contingent Valuation Survey of the Kakadu Conservation Zone*, Canberra: Resource Assessment Commission, Research Paper No. 3.
- Harris, Stuart, (1998) "The environment" in Academy of the Social Sciences in Australia, *Challenges for the Social Sciences and Australia*, vol. 2, Canberra: AGPS, pp. 31-57.
- Throsby, David, (2001) "The environment, sustainable development and the Australian economy", in John Niewenhuysen *et al.* (eds.), *Reshaping Australia's Economy: Growth with Equity and Sustainability*, Melbourne: Cambridge University Press, pp. 111-129.
- Quiggin, John, (2001) "Environmental economics and the Murray-Darling river system", *Australian Journal of Agricultural and Resource Economics*, 45 (1): 67-94; see also comment by Jonathon Pincus, *ibid.*, 46 (4) 2002: 619-626, and Quiggin's reply, pp. 627-628.

Topic 4 The Economics of Sustainable Development

The origins of sustainability

Principles of sustainable development

Ecologically sustainable development: the Australian experience

References

World Commission on Environment and Development, (1987) *Our Common Future*, ("The Brundtland Report"), Oxford: Oxford University Press.

Daly, Herman E. and John B. Cobb, Jr., (1989) *For the Common Good: Redirecting the Economy toward Community, the Environment, and a Sustainable Future*, Boston: Beacon Press.

Pearce, David, Anil Markandya, and Edward B. Barbier, (1989) *Blueprint for a Green Economy*, London: Earthscan Publications.

Goldin, Ian and L. Alan Winters (eds.), (1995) *The Economics of Sustainable Development*, Cambridge: Cambridge University Press.

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Ecologically Sustainable Development Working Group Chairs, (1992) *Intersectoral Issues Report*, Canberra: AGPS.

Goodland, Robert, Herman Daly and Salah El Serafy, (1991) *Environmentally Sustainable Economic Development, Building on Brundtland*, Washington DC, World Bank, Environment Working Paper No. 46.

Diesendorf, Mark and Clive Hamilton (eds.), (1997) *Human Ecology, Human Economy: Ideas for an Ecologically Sustainable Future*, St Leonards: Allen and Unwin, 1997.

Hamilton, Clive and David Throsby (eds.), (1998) *The ESD Process: Evaluating a Policy Experiment*, Canberra: Academy of the Social Sciences in Australia.

Yencken, David and Debra Wilkinson, (2000) *Resetting the Compass: Australia's Journey Towards Sustainability*, Collingwood: CSIRO Publishing.

Krutilla, Kerry and Rafael Reuvery, (2000) "The quality of life in the dynamics of economic development", *Environment and Development Economics*, 7 (1): 23-45.

Tisdell, Clement, (2003) *Ecological and Environmental Economics; Selected Issues and Policy Responses*, Cheltenham: Elgar.

Topic 5 The Economics of Climate Change

What is the enhanced greenhouse effect?
Targets for emissions reductions
Economic instruments

References

- Houghton, John, (1997) *Global Warming: the Complete Briefing*, 2nd edn. Cambridge: Cambridge University Press.
- Ecologically Sustainable Development Working Group Chairs, (1992) *Greenhouse Report*, Canberra: AGPS.
- Hourcade, J.C., (1993) *Tradeable Permits: International Economic Instruments and Climate Change*, Paris: OECD.
- Fankhauser, Samuel, (1995) *Valuing Climate Change: the Economics of Greenhouse*, London: Earthscan.
- Hinchy, Mike *et al.*, (1998) *International Trading in Greenhouse Gas Emissions: Some Fundamental Principles*, Canberra: ABARE.
- Intergovernmental Panel on Climate Change, (2001) *Third Assessment Report* (4 vols.), New York: Cambridge University Press, ("Summaries for policymakers" available at www.ipcc.ch).
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- Ansuategi, Alberto and Marta Escapa, (2002) "Economic growth and greenhouse gas emissions", *Ecological Economics*, 40 (1): 23-37.
- Markandya, Anil and Kirsten Halsnaes (eds), (2002) *Climate Change and Sustainable Development: Prospects for Developing Countries*, London: Earthscan.
- Cameron, Trudy Ann (2005) "Individual option prices for climate change mitigation", *Journal of Public Economics*, 89(2-3): 283-301.
- Weyant, John P. (ed.), (2004) "Introduction and overview" (to special issue on climate change modelling), *Energy Economics*, 26(4): 501-515.

Topic 6 Labour Standards and Trade

Globalisation, a 'race to the bottom' for labour?
Core labour standards as solution, or as disguised protectionism?
Hostility of many economists to a 'social clause' in trade agreements
Unrecognised economic benefits from standards enforcement
Institutional framework

References

Bhagwati, Jagdish, (1995) "Trade liberalisation and 'fair trade' demands: Addressing the environmental and labour standards issues", *The World Economy*, 18: 745-759.

International Labour Office (ILO), (1998) *Declaration on Fundamental Principles and Rights at Work*, (ILO website, www.ilo.org).

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Trebilcock, Michael J. and Robert Howse, (1999) *The Regulation of International Trade*, 2nd edn., London: Routledge.

Topic 7 The Broader Role of Financial Institutions

Financial institutions in the economy, society and development

Recent thinking in information economics

Evidence of history

The growing consensus on an "ideal" financial system

References

Bolton, Patrick, (2002) "Banking in emerging markets", *Journal of Financial Intermediation*, 11 (4): 362-365.

Da Rin, Marco and Thomas Hellmann, (2002) "Banks as catalysts for industrialisation", *Journal of Financial Intermediation*, 11 (4): 366-397.

Tadesse, Solomon, (2002) "Financial architecture and economic performance: international evidence", *Journal of Financial Intermediation*, 11 (4): 429-454.

Todaro, Michael P., (2000) "Financial reform and fiscal policy", in *Economic Development*, 7th edn., New York: Addison-Wesley, pp. 656-668.

Topic 8 The Nonprofit Sector and Healthcare Services

Definitions and size of the nonprofit sector

Rationale for existence of nonprofit enterprise

Government policy towards the nonprofit sector in Australia

The nonprofit sector in the provision of healthcare services

References

- Ben-Ner, Avner, (2002) "The shifting boundaries of the mixed economy and the future of the non-profit sector", *Annals of Public and Cooperative Economics*, 73 (1): 5-40.
- Chou, Shin-Yi (2002), Asymmetric information, ownership and quality of care: an empirical analysis of nursing homes. *Journal of Health Economics*, 21(2): 293-311.
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- Holtmann, A.G., (1988) "Theories of nonprofit institutions", *Journal of Economic Surveys*, 2 (1): 29-46.
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- Lyons, Mark and Susan Hocking, (2000) *Dimensions of Australia's Third Sector* Centre for Australian Community Organisations and Management, University of Technology Sydney.
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- Weisbrod, Burton A., (1998) *The Nonprofit Economy*, Cambridge: Harvard University Press.

Topic 9 The Economics of Security and Defence

Measures of global security
Determinants of defence expenditure
Disarmament and the “peace dividend”

References

- Hartley, Keith, (1990) *The Economics of Defense, Disarmament and Peace: an Annotated Bibliography*, Aldershot: Elgar.
- Sandler, Todd and Keith Hartley, (1995) *The Economics of Defense*, New York: Cambridge University Press.
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- Ross, Andrew I. (ed.), (1991) *The Political Economy of Defense: Issues and Perspectives*, New York: Greenwood.
- Papers contributed to Symposium on Military Spending (1990) in *Cambridge Journal of Economics*, 14 (4): especially articles by P. Dunne “The political economy of military expenditure: an introduction”, (pp. 395-404), and John Lovering, “Military expenditure and the restructuring of capitalism: the military industry in Britain”, (pp. 453-467).
- Murdoch, J.C. and T. Sandler, (1985) “Australian demand for military expenditures: 1961-1979”, *Australian Economic Papers*, 24 (44): 143 -153.
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- King, Peter and Yoichi Kibata (eds.), (1996) *Peace Building in the Asia Pacific Region, Perspectives from Japan and Australia*, Sydney: Allen and Unwin.
- Brauer, Jurgen and Keith Hartley (eds.), (2000) *The Economics of Regional Security: NATO, the Mediterranean and Southern Africa*, Reading: Harwood Academic Press.
- Ihori, Toshihiro, (2004) "Arms race and economic growth", *Defence and Peace Economics*, 15 (1): 27-38.
- Rosendorff, B. Peter and Todd Sandler (2005), “The political economy of transnational terrorism”, *Journal of Conflict Resolution*, 49(2): 171-182.

Topic 10 The Economics of Tourism

Definitions and dimensions of tourism
Role of tourism in the Australian economy
Economic models of tourism demand
Environmental and cultural issues
Policy towards tourism industry development

References

- Morley, Clive L., (1990) "What is tourism? Definitions, concepts and characteristics", *Journal of Tourism Studies*, 1 (1): 3-8.
- Vellas, Francois and Lionel Becherel, (1995) *International Tourism: an Economic Perspective*, London: Macmillan.
- Lickorish, Leonard J. and Carson L. Jenkins, (1997) *An Introduction to Tourism*, Oxford: Butterworth-Heinemann.
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- France, Lesley (ed.), (1997) *The Earthscan Reader in Sustainable Tourism*, London: Earthscan.
- Altman, Jon, (1989) "Tourism dilemmas for Aboriginal Australians", *Annals of Tourism Research*, 16: 456-476.
- Russo, A.P. (ed.), (2000) *Tourism Management in Heritage Cities* (Proceedings of the Second International Seminar, Nazareth, Israel, 3-5 February 2000) Venice: UNESCO.
- Tisdell, Clem, (2001) *Tourism Economics, the Environment and Development*, Cheltenham: Elgar.
- Dwyer, Larry *et al.*, (2003) "Tourism's contribution to a State economy: a multi-regional general equilibrium analysis", *Tourism Economics*, 9 (4): 431-448.
- Papatheodorou, Andreas and Haiyan Song (2005), "International tourism forecasts: time-series analysis of world and regional data", *Tourism Economics*, 11(1): 11-23.

Topic 11 The Economics of Cultural Heritage

What is cultural heritage?
Cultural capital and sustainability
Heritage policy

References

- Peacock, Alan (ed.), (1988) *Does the Past Have a Future? The Political Economy of Heritage*, London: Institute of Economic Affairs.
- Hutter, Michael and Rizzo, Ilde (eds.), (1997) *Economic Perspectives and Cultural Heritage*, London: Macmillan.
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- De la Torre, Marta (ed.), (2002) *Assessing the Values of Cultural Heritage*, Los Angeles: Getty Conservation Institute.
- Navrud, Ståle and Richard C. Ready (eds.), (2002) *Valuing Cultural Heritage: Applying Environmental Valuation Techniques to Historic Buildings, Monuments and Artifacts*, Cheltenham: Elgar.
- Towse, Ruth, (1997) *Cultural Economics: the Arts, the Heritage and the Media Industries*, Cheltenham: Edward Elgar, Vol I, Part V: 347-424.

Topic 12 The Economics of Energy Resource Development and Substitution

Definitions and dimensions of energy resources

Economics of exploration for petroleum and other energy resources

Scarcity and energy prices

Are we running out of oil?

References

Adelman, Morris A. (1993) *The Economics of Petroleum Supply*, Cambridge, MA: The MIT Press.

Dahl, Carol, A. (2004) *International Energy Markets: Understanding Pricing, Policies, and Profits*, Tulsa, OK: Pennwell Publishing.

Deffeyes, Kenneth, S. (2003) *Hubbert's Peak: The Impending World Oil Shortage*, Princeton, NJ: Princeton University Press.

Hotelling, Harold (1931) "The economics of exhaustible resources," *Journal of Political Economy*, 39:137-175.

Websites

U.S. Department of Energy, Energy Information Administration: www.eia.doe.gov; this is the site for the U.S. Department of Energy, and it contains vast material on energy in general, as well as extensive publicly available data on all aspects of energy.

Peak Oil: www.peakoil.net; this site is dedicated to the coverage of material focusing on the supposed peak in oil production.