

MACQUARIE UNIVERSITY



Division of Economic and Financial Studies

ECON210 PUBLIC ECONOMICS

<http://online.mq.edu.au/pub/ECON210/>

Course Outline

2006 Second Semester

Prepared by Dr Pundarik Mukhopadhaya

ECON 210 PUBLIC ECONOMICS

Introduction

Welcome to *Public Economics (ECON 210)*. This course deals with the role of government, public expenditure, public policy taxation and social welfare. Government regulates almost every economic activity and most markets and government expenditure accounts for a third of gross national expenditure. Understanding the role of government in the economy is a fundamental part of the training of an economist. It should also be part of the education of anyone who takes an active interest in the political conduct of the country.

Public Economics discusses how government should, and does, establish the basic rules for the working of the economy and how resources are allocated and distributed. A theme of the course is the economic basis of public policies. The focus is on microeconomic issues and management rather than on macroeconomic policy. Thus *ECON 200* is a compulsory prerequisite for doing this course. However, the course also discusses the role of government in economic growth.

ECON 210 is a demanding course. The course builds on the micro foundations of *ECON 200* and deals with complex issues. It requires an understanding of concepts and empirical methods. We are dealing with fundamental issues about the nature of society. This is based on an analytical and structured approach. An understanding of institutions is also important. Students are expected as a matter of course to be conversant with topical political and economic issues.

Recommended Text

Public Finance and Public Policy, Jonathan Gruber, Worth Publisher, 2005

Public Economics: Principles and Practice, Peter Abelson, Applied Economics, 2003

Some good texts

Economics of the Public Sector, Third Edition, Joseph E Stiglitz, W W Norton and Company, NY/London, 2000

Public Finance, Harvey S Rosen, 7th edition McGraw Hill, 2005

Public Sector Economics, Robin W Boadway and David E Wildasin, 2nd ed, Little, Brown and Company, 1984

Economics of the Public Sector, Sara Connolly and Alisa Munro, Prentice Hall

Introduction to Normative Economics, E J Mishan, Oxford University Press, 1981

Public Finance and the Price System, E K Browning and J M Browning, Macmillan and Co, 1994

I will provide other specific references with lecture handout.

Topic 1 (1-2 lectures)

Introduction

- Market Efficiency
 - Pareto Efficiency
 - Fundamental Theorem of Welfare Economics

Reference

Chapters 1 & 3 from Abelson

Topic 2 (2-3 Lectures)

Concept of Equity and Welfare

- Measurement of Inequality
- Concepts of Social Welfare
- Concept of redistribution
- Efficiency Equity trade-off

Reference

Chapter 2 from Gruber

Chapter 4 from Abelson

Topic 3 (2 Lecture)

Public Goods

- Definition of Public Goods
- Publicly provided Private Goods
- Efficiency Condition and Public Goods
- Intermediate goods and the theory of club

Reference

Chapter 7 from Gruber.

Topic 4 (2 Lectures)

Public Choice and Political Economy

- Median voter
- Instability of majority voting
- Agenda setting
- Logrolling
- Arrow's theorem
- Clarke's tax

Reference

Chapter 9 from Gruber.

Topic 5 (1 Lecture)

Externalities

- Problems of Externalities
- Private Solutions
- Public Solutions

Reference

Chapter 5 from Gruber

Chapter 11 from Abelson

Topic 6 (1/2 – 1 lecture)

Introduction to the theory of Second Best

Topic 7 (1-2 Lectures)

Government Expenditure Policy

- Market Failure
- Alternative forms of Government Intervention
- Private sector responses
- Efficiency Consequences

- Equity Consequences
- Equity-Efficiency Trade-offs

Reference

Chapters 11 to 16 from Gruber (bits and pieces).

Topic 8 (2 Lectures)

Public Economics and Taxation

- Incidence of Taxation
- Efficiency of Taxation
- Optimal taxation

Reference

Chapters 19 and 20 from Gruber.

Course Schedule

The course consists of 12 weeks of two-hour lecture sessions and 6 tutorials.

Lectures will be given on Mondays.

Lectures will start punctually. Students should arrive on time. Students may ask questions in lectures. However, it is disruptive and discourteous to arrive late or talk during lectures.

Assessment

Two Multiple Choice Tests will account 30% (15% each), the home-assignment will account for 10% and the final examination makes up 60%. The final exam will have short and long answer questions from the whole course (to pass this unit one has to pass the final Exam).

The end of semester exam will be a three-hour exam (for timing see <http://www.timetables.mq.edu.au/exam>). There will be no individual exams.

The exam will consist of both short and long (essay) answers questions. It will cover the material for the whole course.

Students who collaborate excessively or without acknowledgment in preparing their semester essay will lose significant marks. Plagiarism is a serious breach of the University's rules. Plagiarism is the use of the work of another person and presenting it as one's own. See <http://www.student.mq.edu.au/plagiarism>.

Students should work steadily through the semester and prepare physically as well as academically for tests.

In the event of documented adverse personal circumstances, such as accident, illness, etc., a supplementary exam may be granted. However, when a student has extra time to prepare while suffering only a minor ailment, a higher standard is expected in the deferred exam. Also, students who sit the regular final exam and then request a supplementary exam should know that, if a supplementary exam is granted, his or her performance in the supplementary exam may raise or lower the result obtained in the regular final exam.

Website Administration

Certain materials and services will be available through the course website. These materials will include the course outline, lecture slides or overheads, and some readings. To access the website, students will require their username and password. Also, administrative announcements will be made and student's administrative queries answered via the website.

Staffing

Dr Pundarik Mukhopadhaya is lecturer-in-charge of ECON 210. Dr Kathy Tannous is tutor-in-charge of the course. Kathy will deal with routine administrative questions.

Staffing contacts

Name	Room	Tel No	Consulting hours
Pundarik Mukhopadhaya	E4A 413	9850-6476	TBA
Kathy Tannous	E4A 450	9850-8496	TBA

Calender

Week	Date	Lecture Topic (tentative)	Tutorial etc.
1	31/7	Introduction and concept of efficiency	
2	07/08	Efficiency consideration continued	
3	14/08	Consideration of equity	
4	21/08	Equity and social welfare	Tutorial 1
5	28/08	Public Goods	Multiple Choice Test 1 (during the first hour of lecture time)
6	04/09	More on Public goods and introduction to Public choice	Tutorial 2
7	11/09	Public Choice and political economy continued	Tutorial 3
8	09/10	Externality	Tutorial 4; Submission of assignment
9	16/10	Introduction to Second Best	Tutorial 5
10	23/10	Government Expenditure Policy	Tutorial 6
11	30/10	Incidence of taxation and Efficiency of Taxation	Multiple Choice test 2 (during the first hour of lecture time)
12	06/11	Optimal taxation	

Research Assignment

“Trend in Size of the Government in Australia”

Hint: For this consider last ten years. Get most updated data from ABS and Government Budget. Decide first what you consider the best way to measure the size of the Government. Show the trend in Government expenditure and revenue in the last ten years. Show the trend in Government budget. Show then where Australia stands in international comparison (compare with OECD countries).

This project will be a maximum of 2500 words and DUE ON MONDAY THE 9th OF OCTOBER. NO LATE ASSIGNMENTS WILL BE ACCEPTED UNLESS YOU HAVE HAD SERIOUS MISADVENTURE. THEREFORE, ANY LATE ASSIGNMENTS WILL INCUR A PENALTY OF 2 MARKS PER-DAY.

In the evaluation of the written work the following factors will be taken into account.

1. The standard displayed in English expression and sentence construction and the level attained in the written articulation of ideas
2. The ability to exhibit critical analysis in the subject area.
3. The ability to develop ideas in a logical or sequential fashion.
4. Plagiarism: The following statement relating to collusion and plagiarism has been prepared by the University.

“The integrity of learning and scholarship depends on a code of conduct governing good practice and acceptable academic behaviour. One of the most important elements of good practice involves acknowledging carefully the people whose ideas we have used, borrowed, or developed. All students and scholars are bound by these rules because all scholarly work depends in one way or another on the work of others.

Therefore, there is nothing wrong in using the work of others as a basis for your own work, nor is it evidence of inadequacy on your part, provided you do not attempt to pass off someone else's work as your own.

To maintain good academic practice, so that you may be given credit for your own efforts, and so that your own contribution can be properly appreciated and evaluated, you should acknowledge your sources and you should ALWAYS:

- (i) State clearly in the appropriate form where you found the material on which you have based your work.
- (ii) Acknowledge the people whose concepts, experiments, or results you have extracted, developed, or summarised, even if you put these ideas into your own words.
- (iii) Avoid excessive copying of passages by another author, even where the source is acknowledged. Find another form of words to show that you have thought about the material and understood it, but remember to state clearly where you found the ideas.

If you take and use the work of another person without clearly stating or acknowledging your source, you are falsely claiming that material as your own work and committing an act of PLAGIARISM. This is a very serious violation of good practice and an offence for which you will be penalised.

YOU WILL BE GUILTY OF PLAGIARISM if you do any of the following in an assignment, or in any piece of work which is to be assessed, without clearly acknowledging your source(s) for each quotation or piece of borrowed material:

- (a) Copy out part(s) of any document or audio-visual material, including computer-based material;
- (b) Use or extract someone else's concepts or experimental results or conclusions, even if you put them in your own words;
- (c) Copy out or take ideas from the work of another student, even if you put the borrowed material in your own words;
- (d) Submit substantially the same final version of any material as a fellow student. On occasions, you may be encouraged to prepare your work with someone else, but the final form of the assignment you hand in must be your own independent endeavour.”

The simplest way to avoid plagiarism is to be open about your sources. There is no academic demerit in this. Many of the ideas used in essays, articles and books inevitably build on the work of others, and it is only honest and courteous to acknowledge those to whom you are indebted.

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ECON 210 Coversheet Declaration

Unit Assignment

Name..... Student number

I certify that

- This assignment is my own work, based on my personal study and/or research
- I have acknowledged all material and sources used in the preparation of this assignment, including any material generated in the course of my employment
- If this assignment was based on collaborative preparatory work, as approved by the teachers of the unit, I have not submitted substantially the same final version of any material as another student
- Neither the assignment, nor substantial parts of it, have been previously submitted for assessment in this or any other institution
- I have not copied in part, or in whole, or otherwise plagiarised the work of other students
- I have read and I understand the criteria used for assessment
- The assignment is within the word and page limits specified in the unit outline
- The use of any material in this assignment does not infringe the intellectual property / copyright of a third party
- I understand that this assignment may undergo electronic detection for plagiarism, and a copy of the assignment may be retained on the database and used to make comparisons with other assignments in future

Signature Date

This declaration is a summary of the University policy on plagiarism. For the policy in full, please refer to Student Information in the Handbook of Undergraduate Studies or www.student.mq.edu.au/plagiarism/.