

MACQUARIE UNIVERSITY



Division of Economic and Financial Studies

ECON210 PUBLIC ECONOMICS

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

Course Outline

2007 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.

Reference Text

Public Finance and Public Policy, Jonathan Gruber, Worth Publisher, 2005 (there is a second edition available now)

Some other 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 Economics: Principles and Practice, Peter Abelson, Applied Economics, 2003

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

Please read Gruber Chapters 1-3 by you for general understanding of public economics and techniques to be used for this course. I will not follow the textbook for most of the lectures, and will supply you a quite detailed lecture materials. For your better understanding I will suggest you to read the Gruber.

Topic 1

Introduction

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

Topic 2

Concept of Equity and Welfare

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

Topic 3

Public Goods

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

Topic 4

Public Choice and Political Economy

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

Topic 5

Externality

- Problems of Externalities
- Private Solutions
- Public Solutions

Topic 6

Introduction to the theory of Second Best

Topic 7

Government Expenditure Policy

- Alternative forms of Government Interventions
- Private sector responses
- Efficiency Consequences
- Equity Consequences
- Labour market regulation

Topic 8

Public Economics and Taxation

- Incidence of Taxation
- Efficiency of Taxation
- Optimal taxation

Course Schedule

The course consists of 12 weeks of two-hour lecture sessions and 6-7 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 40% (20% each) 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 two-hour exam (for timing see <http://www.timetables.mq.edu.au/exam>). There will be no individual exams.

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

Detailed course outline, lecture handouts, tutorial questions and answers available through the course website (answers of tutorial questions will only be available after the tutorial week). 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. Ms Andrea Chareunsy is the tutor-in-charge of the course. Dr Stephane Mathuteau is another tutor of this course. Andrea will deal with routine administrative questions.

Staffing contacts

Name	Room	Tel No	Consulting hours
Pundarik Mukhopadhaya	E4A 413	9850-6476	TBA
Andrea Chareunsy	E4A 452	9850-9283	TBA
Stephane Mathuteau	E4A-528	9850-8489	TBA

Calender

Week	Date	Lecture Topic (tentative)	Tutorial etc.
1	30/7	Introduction and concept of efficiency	
2	06/08	Efficiency consideration continued	
3	13/08	Consideration of equity	
4	20/08	Equity and social welfare	Tutorial 1
5	27/08	Public Goods	Multiple Choice Test 1 (during the first hour of the lecture time)
6	03/09	More on Public goods and introduction to Public choice	Tutorial 2

7	10/09	Public Choice and political economy continued	Tutorial 3
8	08/10	Externality	Tutorial 4
9	15/10	Introduction to Second Best	Tutorial 5
10	22/10	Government Expenditure Policy	Multiple Choice test 2 (during the first hour of the lecture time)
11	29/10	Incidence of taxation and Efficiency of Taxation	Tutorial 6
12	05/11	Optimal taxation	Tutorial 7
