

MACQUARIE UNIVERSITY



Division of Economic and Financial Studies

ECON210 PUBLIC ECONOMICS

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

Course Outline

2008 Second Semester

Prepared by Dr Pundarik Mukhopadhaya

ECON 210 PUBLIC ECONOMICS

Introduction

Welcome to *Public Economics (ECON 210)*. This course deals with the problems and prospects of government intervention in an market economy: concept of efficiency, equity, social welfare, public goods, externality, public expenditure, public policy and taxation. 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 is also 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.

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, 2007
(Second edition)

Some other useful 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

Microeconomic Behaviour, Robert Frank, McGraw-Hill, 2008

Read Gruber Chapters 1 and 2 for general understanding of public economics and techniques to be used for this course. I will supply you every week more theoretical material in the form of lecture handouts (downloadable from the website). Some tutorial questions will come from Gruber. You can have practice MCQ test from Gruber. The references mentioned below with each topic are mere guide only.

Topic 1

Introduction

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

Reference

Gruber Chapter 1 and 2

Stiglitz Chapter 3

Rosen Page 33-43

<http://cepa.newschool.edu/het/essays/paretian/paretequil.htm>

<http://cepa.newschool.edu/het/essays/paretian/paretoptimal.htm>

Other advanced references

Microeconomics, H. Gravelle and R. Rees, 3rd ed, Prentice Hall, 2004, Chapter 13.

Microeconomics, M. L. Katz and H. S. Rosen, 3rd ed. McGrawHill, 1998, Chapter 12.

Topic 2

Concept of Equity and Welfare

- Measurement of Inequality
- Causes of Inequality
- Concepts of Social Welfare
- Concept of redistribution

- Efficiency Equity trade-off

Reference

Gruber Chapter 2

Stiglitz Chapter 5

Rosen pp 46-50; 146-153

<http://cepa.newschool.edu/het/essays/paretian/paretosocial.htm>

Mishan, E. J. (1960, June): A Survey of Welfare Economics: 1939-1959, *Economic Journal*, 70, 197-265.

Earnings Inequality in *International Encyclopaedia of Social Policy* (Eds) T. Fitzpatrick et al, Routledge, 350-355

Income Inequality in *International Encyclopaedia of Social Policy* (Eds) T. Fitzpatrick et al, Routledge, 633-638

A historical perspective of theories of social welfare will be found in:
<http://etext.lib.virginia.edu/cgi-local/DHI/dhi.cgi?id=dv4-36>

Some other advanced references

Economic Inequality and Income redistribution by D. G. Champernowne and F. A. Cowell, 1998, Cambridge University Press

Measuring Inequality, F. A. Cowell, 2nd ed, 1995, Prentice Hall

Public Economics, G. Myles, 1995, Cambridge University Press, Chapter 3, pp 59-96.

Benefit-Cost Analysis in Theory and Practice, R. O. Zerbe (Jr.) and D. D. Dively, Harper Collins, 1994, Chapter 5-6.

Topic 3

Public Goods

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

Reference

Gruber Chapter 7

Stiglitz Chapter 6

Rosen Chapter 4

Topic 4

Public Choice and Political Economy

- Median voter
- Instability of majority voting
- Agenda setting
- Logrolling

- Arrow's theorem
- Clarke's tax

Reference

Gruber Chapter 9

Stiglitz Chapter 7

Rosen Chapter 6

Other Reference

Public Finance and Public Policy: Responsibilities and Limitations of Government, A. L. Hillman, Cambridge University Press, 2003, Chapter 3

Topic 5

Externality

- Problems of Externalities
- Private Solutions
- Public Solutions

Reference

Gruber Chapter 5

Stiglitz Chapter 9

Rosen Chapter 5

Topic 6

Introduction to the theory of Second Best

Reference

Boadway and Wildasin, pp 176-80.

Lipsey, R. G. and Lancaster, K. (1956-7): "The General Theory of Second Best", *Review of Economic Studies*, 24, 11-32.

Reference for Advanced readers

Applied Welfare Economics, Chris Jones, Oxford University Press, 2005

Public Finance: A Normative Theory, R. W. Tresch, Academic Press, 1995

Topic 7

Methods of Income Redistribution and Government Expenditure Policy

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

Reference

Browning and Browning, chapter 5, pp 139-73.
Gruber Chapter 10, 11
Stiglitz Chapter 10

Topic 8

Public Economics and Taxation

- Incidence of Taxation
- Efficiency of Taxation
- Optimal taxation

Reference

Gruber Chapter 18-20
Stiglitz Chapter 17-20
Rosen Chapter 12-14

Course Schedule

The course consists of 12 weeks of two-hour lecture sessions and 7 tutorials.

Lectures will be given on Mondays (3-5 PM and 6-8 PM).

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%. **To pass this unit one has to pass the final Exam.** No past year question paper is available as the structure of the final exam changes every year.

The end of semester exam will be a two-hour exam (for timing see <http://www.timetables.mq.edu.au/exam>).

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/her performance in the supplementary exam may raise or lower the result obtained in the regular final exam.

The above outline is flexible and may be adjusted if required.

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 the lecturer-in-charge of ECON 210. Names of the other tutor will be announced later.

Staffing contacts

Name	Room	email	Tel No	Consulting hours
Pundarik Mukhopadhaya	E4A 413	pundarik@efs.mq.edu.au	9850-6476	Tuesday: 12-3 PM
Stephane Mathuteau	E4A-528	smathut@efs.mq.edu.au	9850-8489	TBA

Calender

Sl No.	Date	Lecture Topic (tentative)	Tutorial etc.
1	4/08	Introduction and concept of efficiency	
2	11/08	Efficiency consideration continued	
3	18/08	Consideration of equity	
4	25/08	Equity and social welfare	Tutorial 1
5	1/09	Public Goods	Multiple Choice Test 1 (during the first hour of the lecture time)
6	08/09	More on Public goods and introduction to Public choice	Tutorial 2
7	15/09	Public Choice and political economy continued	Tutorial 3
8	13/10	Externality	Tutorial 4
9	20/10	Introduction to Second Best	Tutorial 5
10	27/10	Government Expenditure Policy	Multiple Choice test 2 (during the first hour of the lecture time)
11	3/11	Incidence of taxation and Efficiency of Taxation	Tutorial 6
12	12/11	Optimal taxation	Tutorial 7