

MACQUARIE  
UNIVERSITY



FACULTY OF  
BUSINESS AND ECONOMICS

**ECON 210**  
**PUBLIC ECONOMICS**

**Semester 2, 2009**

*Department of Economics*

**MACQUARIE UNIVERSITY  
FACULTY OF BUSINESS AND ECONOMICS  
ECON210: PUBLIC ECONOMICS 2009 SEMESTER 2**

**Unit Convener: Dr Pundarik Mukhopadhaya**

**Prerequisites/Co-requisites: ECON 210**

**Credit point: 3**

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult the unit convener.

#### **ABOUT THIS UNIT**

##### ***Unit Description***

This course deals with the problems and prospects of government intervention in a 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.

##### ***Aims***

The aims of this unit are to

1. Develop an analytical understanding of the economics of welfare and distributive justice

2. Provide a rationale and economic analysis of the spending, revenue-raising and regulation activities of the state in a mixed economy
3. Examine various roles and activities of the public sector and their impact on the private sector

### ***Objectives***

On completion of this unit students will be able to:

- Understand and apply the main theories and modules of public sector economics.
- Develop analytical skills relevant to the assessment of these different theories and models of public economics, including drawing out the predictions and implications of economic models and making inferences from empirical data.
- Apply the knowledge and skills acquired to the study of the main forces sustaining and limiting market economy today, and the design of effective policy interventions.

### ***Generic Graduate Attributes***

This unit adds to the generic attributes of graduates in the following ways:

- Identify problems and analyze the main features
- Relating theory to policy
- Ethical underpinning of economics
- Ability to relate the knowledge learnt in Economics to the wider social issues
- Apply appropriate problem-solving processes, arguments, critical and effective thinking to current issues
- At the end of the unit, the student will be well equipped to contribute to debates in the area of public economics.
- Identify, implement and evaluate strategies for the resolution of problems.

### ***Prior Knowledge***

- Intermediate Microeconomics (ECON 200)
- Logical thinking and analytical skills

## TEACHING STAFF

Name	Contact information		Consultation time during teaching weeks	
Dr Pundarik Mukhopadhaya	Room Telephone email	E4A-413 9850-6476 pundarik@efs.mq.edu.au	Tuesdays 12-3	Unit convener and Lecturer Tutor Monday 8 PM
Ms Andrea Chareunsy	Room Telephone email	E4A-452 9850-9283 achareun@efs.mq.edu.au	TBA	Tutor (Mondays 11 am, 12 noon, 1 pm, 2 pm)
Mr Onur Ates	email	Onur.Ates@efs.mq.edu.au	TBA	Tutor (Tuesday 10 am; Wednesday 3 PM)

Consultations: Please restrict consultations to the announced times whenever possible. Students need to contact staff requesting an appointment for all other times.

Email: To maintain students' privacy and confidentiality, students should only use their Macquarie University email address to correspond with staff. Emails emanating from other sources may not be responded to. It is essential that you check your university email on a regular basis as this is our primary means to contacting individual students.

The unit 'Blackboard' website can be entered via <http://learn.mq.edu.au>. To access the website, students will require their user name and password. You will find most, if not all, of the information about the course at this site.

## CLASSES

The subject will be presented face to face (every Monday 3-5 PM, Room: W5A - T1 and 6-8 PM, Room C5A – 313) via 12 weeks of two hour lecture sessions and seven one hour tutorials (on selected weeks only) and will largely be based on printed material with integrated assessment exercises. Blackboard will also be used extensively with e-learning tools (discussion forum) and the use of announcement board.

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.

Attendance at lectures and tutorials will not be enforced, but is strongly recommended. Students who miss classes put themselves at a considerable disadvantage for several reasons, including:

1. Not all material in the reference text is covered in the unit, and not all the unit material is covered in the text. In some places the text deals with issues in greater depth than is necessary for the unit, and in other places it does not go far enough. The lectures contain all the unit material taught at the level that is required for successful completion of the tutorial exercises, and they are your guide to the content of the unit.
2. The approaches to some problems that are recommended by the lecturer are different to those in the text.
3. The lectures will include significant guidance about the style and content of the final exam and recommendation about the study techniques.
4. It is difficult and often impossible for lecturer to provide meaningful assistance to students outside class times on topics for which they did not attend they did not attend the relevant lectures and tutorials.

Class attendance is only one part of university study. In addition to class attendance, students will need to spend around seven hours per week in private study in order to perform well in this unit.

## **REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS**

### **Reference Text**

Public Finance and Public Policy, Jonathan Gruber, Worth Publisher, 2007 (Second edition)

### **Some other useful texts**

Public Economics: Principles and Practices, 2<sup>nd</sup> Edition, Peter Abelson, MacGrawHill, 2008

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

Public Finance, Harvey S Rosen, 7<sup>th</sup> edition McGraw Hill, 2005

Public Sector Economics, Robin W Boadway and David E Wildasin, 2<sup>nd</sup> 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

Microeconomics, Jeffery Perloff, 5<sup>th</sup> Edition, Pearson: Addison Wesley, 2009

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 tests from Gruber. The references mentioned below with each topic are mere guide only.

## **TOPICS**

- Efficiency of market and fundamental theorems of welfare economics
- Concept of equity and social welfare function
- Theory of Public goods
- Public Choice and Political Economy
- Theory of Externality
- Theory of Second Best
- Economics of Transfer Payments
- Fiscal Federalism
- Economics of Taxation

## **LEARNING OBJECTIVES AND OUTCOMES**

The learning objectives of this unit are:

- Examine critical issues and processes evolving in the economics of public sector
- Comprehend changing local and global government intervention issues, structures and policies
- Understand the working of the complex issues in the political economy and the democratic process

On successful completion of this unit, students should be able to:

- Understand the requirements and roles of public sector in a decentralized market economy
- Demonstrate that they are familiar with several important issues of public sector economics; that they understand the necessity and effects of government fiscal decisions; that they can critically analyze public sector policy issues; and they can handle public sector statistics.

## LEARNING AND TEACHING STRATEGY

There will be twelve two-hour lectures each week and seven one hour tutorials (on selected weeks) held for various groups during the semester. Attendance at lectures and tutorials will not be enforced, but is strongly recommended.

### Topic 1: Introduction

- Market Efficiency
  - Pareto Criteria
  - Fundamental Theorems of Welfare Economics

#### Reference

Gruber Chapter 1 and 2

Stiglitz Chapter 3

Rosen Page 33-43

Perloff Page 309-331

Abelson Chapter 3

<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, 3<sup>rd</sup> ed, Prentice Hall, 2004, Chapter 13.

Microeconomics, M. L. Katz and H. S. Rosen, 3<sup>rd</sup> 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

Perloff pp 331 - 340

Abelson Chapter 6, 7, 28

<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, 2<sup>nd</sup> 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

Abelson Chapter 11

#### Other Reference

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



**Topic 5:       Externality**

- Market failure with externalities
- Private Solutions
- Public Solutions
- Taxation vs. Quota
- Common Property Resources

Reference

Gruber Chapter 5  
Stiglitz Chapter 9  
Rosen Chapter 5  
Abelson Chapter 13

**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:       Economics of Taxation**

- Incidence of Taxation
- Efficiency of Taxation
- Optimal taxation

Reference

Gruber Chapter 18-20  
Stiglitz Chapter 17-20

**Calendar**

Sl No.	Date/ Week starting	Lecture Topic (tentative)	Tutorial etc.
1	3/08	Introduction and concept of efficiency	
2	10/08	Efficiency consideration continued	
3	17/08	Consideration of equity	Tutorial 1
4	24/08	Equity and social welfare	Tutorial 2
5	31/08	Public Goods	Multiple Choice Test 1 (during the first hour of the lecture time)
6	07/09	More on Public goods and introduction to Public choice	Tutorial 3
7	14/09	Public Choice and political economy continued	Tutorial 4
<b><i>Break period</i></b>			
8	12/10	Externality	Tutorial 5
9	19/10	Introduction to Second Best	Tutorial 6
10	26/10	Government Expenditure Policy	Multiple Choice test 2 (during the first hour of the lecture time)
11	2/11	Taxation etc	Tutorial 7
12	09/11	Recapitulation	

**RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES**

Assessment comes in a variety of forms and wherever possible is used to reflect and enhance the learning and teaching process that occurs in the class room. In this case assessment has been kept as an integral part of the teaching and learning process.

As this unit of study demonstrates, it is clear that no single type of assessment could provide an accurate measurement of learning outcome. Students will be given the best opportunity to demonstrate their understanding of the learning experience. Thus I have decided to use a variety of data gathering methods such as class room problem solving tests, and end year closed book examination with a variety of questions for example multiple choice, short answer and numerical problem solving questions.

The format of assessment is designed to quantify the extents to which students have progressed towards desired learning outcomes. Feedback on any assessment task on learning performances will be provided within 21 days (individually during the consulting hours). The e-learning facilities in the Blackboard will be used extensively to provide opportunities to students for learning and self assessing the absolute and relative quality of their own work.

### **Assessment**

Mid-Semester test (Week 5)	20 %
Mid-Semester test (Week 10)	20 %
Final Examination	60 %

The assessment will consist of:

#### ***Compulsory Mid Semester Tests***

Two **Class tests (with multiple choice questions) on week 5 and week 10** worth **20% each (40% total)** of the marks. The coverage of these tests will be announced during the lectures.

If you fail to attend the test you will be awarded a **zero** mark. Students who experience *serious misadventure* and are unable to attend the test should contact the unit convener (phone 9850 6476; email: pundarik@efs.mq.edu.au) and provide full documentation explaining their non-attendance. As a matter of justice to all students, flimsy excuses will be rejected outright. If the documented evidence is accepted, either the second test or final exam mark will be converted to a higher percentage of the total marks (to be decided beforehand by the candidate in consultation with the unit convener; once the decision is made no further change is allowed regarding the conversion of marks).

#### ***Final Examination***

A two hour closed book final examination for this unit will be held at the end of the semester. All course content is examinable.

The final examination will test how well students can perform in a stress situation (what they are expected to face in their 'real life' after graduation) and how well they can synthesize the material they learnt throughout the semester. The final grade will reflect the achieved mastery, competence and academic independence, utilization of feedback to improve performance and development of graduate capabilities.

**IMPORTANT NOTICE: It is the policy of the Department of Economics, Macquarie University that students MUST pass the FINAL EXAM in order to satisfactorily complete an Economics course. Students who do not pass the final exam will be AUTOMATICALLY awarded a Fail (F) grade.**

### ***Final examination requirements:***

Students are expected to present themselves for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.

For details check:

<http://www.timetables.mq.edu.au/exam>

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at

<http://www.reg.mq.edu.au/Forms/APSCon.pdf>

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period. You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, the final day of the official examination period.

As indicated 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.

## **PLAGIARISM**

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own." Plagiarism is a serious breach of the University's rules and carries significant penalties. You must read the University's practices and procedures on plagiarism. These can be found on the web at: <http://www.student.mq.edu.au/plagiarism/>. They are also the 'Handbook of Postgraduate Studies, 2009' on pages, 50 and 138-139.

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

## **DETERMINATION OF OVERALL GRADE**

The following range of standardized numerical grades applies as follows:

HD	High Distinction	85-100
D	Distinction	75-84
Cr	Credit	65-74
P	Pass	50-64
PC	Conceded Pass	45-49
F	Fail	0-44

Raw marks are given on each assessment task. The scaled marks are then derived from raw marks. The student's grade of achievement in a unit is based on an assessment of all relevant work in the unit including performance at examinations. Note once again that it is the policy of the Department of Economics, Macquarie University that students must pass the final exam in order to satisfactorily complete an economics course. Students who do not pass the final exam will be automatically awarded a Fail (F) grade.

## **STUDENT SUPPORT SERVICES**

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at <http://www.student.mq.edu.au>.

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