

MACQUARIE  
UNIVERSITY



FACULTY OF  
BUSINESS AND ECONOMICS

Unit code 210  
Unit Name: Public Economics

Semester 2, year 2010

*Department of Economics*

**MACQUARIE UNIVERSITY**  
**FACULTY OF BUSINESS AND ECONOMICS**  
**UNIT OUTLINE: ECON 210 PUBLIC ECONOMICS**

**Unit Convenor: Dr Pundarik Mukhopadhaya**

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

**Credit point: 3**

(From this year ECON 210 is no longer a CORE unit. Material to be covered has been changed from last years' offering)

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 convenor.

#### **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, transfer payments 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, mathematical applications and empirical methods.

##### ***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 AND CONSULTATION TIMES**

Name	Contact information	Consultation time during teaching weeks	
Dr Pundarik Mukhopadhaya	Room : E4A-413 Telephone : 9850-6476 email : pundarik.mukhopadhaya@mq.edu.au	TBA	Unit convenor and Lecturer Tutor TBA
TBA	Room : E4A Telephone : 9850- email : @mq.edu.au	TBA	Tutor

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

You are encouraged to seek help at a time that is convenient to you from a staff member teaching on this unit during their regular consultation hours. In special circumstances, an

appointment may be made outside regular consultation hours. Staff will not conduct any consultations by email. You may, however, phone staff during their consultation hours.

In order to gain access to staff located at levels 1, 2 and 3 of building E4A during their consultation hours please ring the staff member from the phones available in the lobby (phone numbers of relevant staff members will be provided on Blackboard and are available next to the phones).

Students experiencing significant difficulties with any topic in the unit must seek assistance immediately.

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) via 12 weeks of two hour lecture sessions and ten one hour tutorials (lecture/tutorial missed due to labour day holiday will not be adjusted) 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 text is covered in the unit, and not all the unit material is covered in the reference 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 eleven tutorial exercises, and they are your guide to the content of the unit.
2. In some of the tutorials you will learn the techniques to solve quantitative problems, while lectures may not deal with these techniques, however, deals mainly with the underlying theory.
3. The approaches to some problems that are recommended by the lecturer are different to those in the text.
4. The lectures will include significant guidance about the style and content of the final exam and recommendation about the study techniques.

5. 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 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**

### **Recommended Text**

Public Sector Economics, Richard W. Tresch, Palgrave, 2008

### **Some other useful texts**

Public Finance and Public Policy, Jonathan Gruber, Worth Publisher, 2007 (Second edition)  
[Note: now, the third edition of this book is also available]

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

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

Following Topics will be covered in this unit

- Efficiency of market and fundamental theorems of welfare economics
- Concept of equity and social welfare function
- Theory of Externality
- Theory of Public goods

- Public Choice and Political Economy
- Economics of Transfer Payments
- Economics of Taxation

### **TECHNOLOGY USED AND REQUIRED**

- MS Office, Blackboard

### **UNIT WEB PAGE**

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.

### **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.

### **TEACHING AND LEARNING STRATEGY**

There will be twelve two-hour lectures each week and eleven 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**

- Foundation of Public Sector Theory
- Market Efficiency
- Theorems of Welfare Economics

#### Reference

Tresch Chapter 1-3

Following references will also be helpful:

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: Social Welfare Function**

Reference

Tresch Chapter 4 and 5

Following references will also be helpful:

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 Encyclopedia of Social Policy* (Eds) T. Fitzpatrick et al, Routledge, 350-355

Income Inequality in *International Encyclopedia 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: Externality**

Reference

Tresch Chapter 6 and 7

Following references will also be helpful:

Gruber Chapter 5

Stiglitz Chapter 9

Rosen Chapter 5

Abelson Chapter 13

**Topic 4: Public Goods**

Reference

Tresch Chapter 8

Following references will also be helpful:

Gruber Chapter 7 and 9

Stiglitz Chapter 6 and 7

Rosen Chapter 4 and 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 6: Issues related to Transfers to the Poor**

Reference

Tresch, Chapter 11

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

Tresch Chapter 13-18

Gruber Chapter 18-20

Stiglitz Chapter 17-20

Rosen Chapter 12-14

Abelson Chapter 20-23

## Calendar

Date/Week starting	Lecture Topic (tentative)	Tutorial etc.
02/08	Introduction and concept of efficiency	
09/08	Market efficiency and theorems of Welfare Economics	Tutorial 1
16/08	Social welfare Function	Tutorial 2
23/08	Social Welfare considerations	Tutorial 3
30/08	Externality <b>Multiple Choice Test 1 (during the first hour of the lecture time)</b>	Tutorial 4
06/09	More on Externality, Public Goods	Tutorial 5
13/09	More on Public goods	Tutorial 6
11/10	Income redistribution	Tutorial 7
18/10	Economics of Taxation 1	Tutorial 8
25/10	Economics of Taxation 2 <b>Submission of Research Assignment</b>	Tutorial 9
01/11	Economics of Taxation 3	Tutorial 10
08/11	Recapitulation	Tutorial 11

## 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, take-home research assignment 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 ( <b>30/08/2010</b> )	20 %
Take-home research assignment (due <b>25/10/2010</b> )	20 %
Final Examination	60 %

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

One **Class test (with multiple choice questions) on week 5 (30/08) worth 20% and one research assignment (due on 25/10) worth 20%** of total marks. Further details will be announced during the lectures. Those who perform unsatisfactorily in the week 5 Test are especially recommended to consult with the unit convenor for a study guide to do better in the next tests.

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 convenor (phone 9850 6476; email: Pundarik.mukhopadhaya@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, final exam mark will be converted to a higher percentage of the total 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.

### ***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.

	<b>Assessment Task 1</b>	<b>Assessment Task 2</b>	<b>Assessment Task 3</b>
Title/Name	Multiple Choice Test	Take home assignment	Closed book Final exam
Description	20 questions with four answers provided (one of them is right), to be answered in 30 minutes	5000 word essay on the topic TBA	Multiple choice and descriptive short answer type questions and numerical problems.
Due date	30/08/2010	25/10/2010	See exam timetable
% Weighting	20	20	60
Grading method	1 mark for right answer, 0 for wrong. Coverage: topics covered up to week 4.	TBA	The following range of standardized numerical grades applies as follows: HD High 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 question. The scaled marks are then derived from raw marks.
Submission method	In class test	By 5 PM on the due date at BESS	See university final exam rules
Feedback	Within three weeks marks will be announced. Students are welcome to discuss the paper during consultation hours.	Within three weeks marks will be announced. Students are welcome to discuss the paper during consultation hours.	Students are welcome to discuss the paper after the publication of result by appointment.

	<b>Assessment Task 1</b>	<b>Assessment Task 2</b>	<b>Assessment Task 3</b>
Estimated student workload (hours)	28 hours	20-25 Hours	7 hours a week throughout the semester
Learning outcomes assessed			
1	Ability to assess economic decisions under the light of formal principles of economic welfare and distributive justice	Ability to develop argument	Ability to assess economic decisions under the light of formal principles of economic welfare and distributive justice
2	Precise use of concepts	Precise use of concepts and models	Ability to develop argument
3		Ability to express and analyse real life economic decisions in terms of formal models	Precise use of concepts and mathematical models
4		Ability to select, summarize and synthesize written information from multiple sources	Ability to express and analyse real life economic decisions in terms of formal models
5		Effective written communication	Effective written communication

### **ACADEMIC HONESTY**

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at

[http://www.mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://www.mq.edu.au/policy/docs/academic_honesty/policy.html)

## **GRADES**

Please refer to relevant Bachelor Degree rule in the Handbook of Undergraduate Studies.

## **GRADING APPEALS AND FINAL EXAMINATION SCRIPT VIEWING**

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.

[http://www.businessandconomics.mq.edu.au/for/new\\_and\\_current\\_students/undergraduate/admin\\_central/grade\\_appeals](http://www.businessandconomics.mq.edu.au/for/new_and_current_students/undergraduate/admin_central/grade_appeals)

## **SPECIAL CONSIDERATION**

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at:

[http://www.mq.edu.au/policy/docs/special\\_consideration/procedure.html](http://www.mq.edu.au/policy/docs/special_consideration/procedure.html)

## **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>.

## **IT CONDITIONS OF USE**

Access to all student computing facilities within the Faculty of Business and Economics is restricted to authorised coursework for approved units. Student ID cards must be displayed in the locations provided at all times.

Students are expected to act responsibly when utilising University IT facilities. The following regulations apply to the use of computing facilities and online services:

- Accessing inappropriate web sites or downloading inappropriate material is not permitted. Material that is not related to coursework for approved unit is deemed inappropriate.
- Downloading copyright material without permission from the copyright owner is illegal, and strictly prohibited. Students detected undertaking such activities will face disciplinary action, which may result in criminal proceedings.

Non-compliance with these conditions may result in disciplinary action without further notice.

Students must use their Macquarie University email addresses to communicate with staff as it is University policy that the University issued email account is used for official University communication.