



## **Course information 2020-21**

### **EC3022 Public economics**

#### **General information**

**COURSE LEVEL:** 6

**CREDIT:** 30

**NOTIONAL STUDY TIME:** 300 hours

#### **Summary**

This course is about the role of government and the different ways in which government policies affect the economy. It develops an analytical framework that facilitates the evaluation of public policy and subsequently informs the public debate.

#### **Conditions**

**Prerequisite:** If taken as part of a BSc degree, the following course(s) must be passed before this course may be attempted.

- MN2028 Managerial economics **OR** EC2066 Microeconomics

#### **Aims and objectives**

The specific aims and objectives are to:

- provide an introduction to the activities of government and the motivation behind economic intervention
- show how the tools of microeconomics can be applied to policy analysis
- provide a conceptual framework for assessing the success of economic policy
- conduct the evaluation of policy proposals.

#### **Learning outcomes**

At the end of the course and having completed the essential reading and activities students should be able to:

- describe the major items of government revenue and expenditure
- compare explanations for government intervention
- demonstrate why competition is efficient
- explain the sources of market failure and potential policy responses
- discuss the design of the tax structure using the concepts of efficiency and equity
- describe how the level of government expenditures is determined

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- demonstrate how the interaction between jurisdictions affects the choice of policy
- employ economic analysis to evaluate policy proposals.

## Essential reading

For full details, please refer to the reading list.

Myles, G.D. and J. Hindriks *Intermediate Public Economics*. (Cambridge: MIT Press 2006) [ISBN 9780262083447].

## Assessment

This course is assessed by a three-hour unseen written examination.

## Syllabus

The first section investigates issues of efficiency and equity. The efficiency of the competitive equilibrium is demonstrated. The sources of market failure are introduced and alternative policy schemes designed to improve efficiency are analysed. The policy implications of equity considerations are then reviewed, with an emphasis on the restrictions placed upon government actions by limited information.

The second section introduces the public sector and analyses public-sector decision making. The historical growth of public sector expenditure over the previous century is charted and statistics on the present size of the public sector are reviewed. The reasons (both historical and theoretical) for the existence of the public sector are considered, as are theories that attempt to explain its growth. A positive analysis of how the government may have its objectives and actions determined is undertaken. Voting is analysed as a decision-making mechanism.

The third section involves a detailed review of the sources of market failure: public goods, club goods, imperfect competition, externalities and information. The motives for government provision of public goods are explored and mechanisms for efficient provision are analysed. The debate over the extent of welfare loss caused by imperfect competition is studied. The concept of a natural monopoly is introduced and policies for their regulation discussed. The market failure caused by externalities is used to motivate the Coase Theorem and the legal and economic basis of the assignment of properties rights. The double-dividend hypothesis and green taxes are also analysed.

The fourth section is concerned with taxation. It analyses the basic tax instruments (commodity and income taxes) and the economics of tax evasion. The effects of taxation are analysed and rules for optimal taxes derived. The degree to which taxation can achieve redistribution is studied and taxation is contrasted with other economic allocation mechanisms. These principles are applied to evaluate policy initiatives.

The final section studies public economics when there is more than one decision-making body. Fiscal federalism addresses why there should be multiple levels of government and discusses the optimal division of responsibilities between different levels. The study of tax competition shows how tax competition can limit the success of delegating tax-setting powers to independent jurisdictions.

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