

Syllabus

Public Economics (ECTS 6)

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Department of Public Administration

Adopted by Academic council of educational program

Meeting Minute _1__dated _____23.08 2019_

<p>Course description</p>	<p><u>Pre-requisites:</u> Mathematics (calculus), Intermediate microeconomics</p> <p><u>Abstract:</u> The course in Public Economics covers basic issues including a role of government in modern market economies, market failures and public goods, public choice, equity-efficiency trade-offs, taxation principles, public expenditure programmes, fiscal federalism. It combines theoretical models with empirical evidence. Objectives and instruments of public policies are demonstrated with examples of voting and rent-seeking, behavior of bureaucracy, models of taxation design, welfare state problems, including healthcare, pension systems and other social endowments. General principles of cost-benefit analysis are introduced. The course ends with the review of the main features of constitutional political economy, discussion of underlying roots of increasing government size and possible solutions for its reduction.</p>
<p>Learning objectives</p>	<p><u>The goals of the course are to:</u></p> <ul style="list-style-type: none"> • develop an understanding of various views on the role of the government in the economy; • master the principles of public economics by means of study of the theories of market failure, government failure, government expenditure, taxation and intergovernmental fiscal relations; • and study the influence of public sector activities on the economy at the microeconomic level.
<p>Learning outcomes</p>	<p><u>Knowledge</u> You should know:</p> <ul style="list-style-type: none"> • central concepts and basic models of modern public economics; • main ideas of modern political economy (theory of public choice); • key concepts characterizing types, properties, and effects of taxes on the welfare and behavior of economic actors; • key concepts underlying welfare programmes and analyzing the consequences of social transfers; • basic principles of constitutional economics and discussions related to the limits of government growth; • major actual policies and examples of issues currently on the political agenda. <p><u>Skills</u> You should be able to:</p> <ul style="list-style-type: none"> • explain the economic contents and trade-offs captured by the models; • discuss the assumptions, relevance, and limitations of the government's actions; • identify and analyze policy problems in public economics; • assess arguments appearing in the policy debate. <p><u>Competence</u> You should be able to:</p> <ul style="list-style-type: none"> • employ economic analysis to evaluate policy proposals and projects using the concepts and methods that are introduced in the course • make use of the course content in your own academic work, for example in analyses that are part of the master's thesis

Course plan	№	Topic	Total	Lectures	Tutorials	Self-directed studies
	1	Public sector in modern economics	14	2	-	12
	2	Public Goods & Club Goods	21	2	4	15
	3	Market Corrections: Externalities & Paternalism	21	2	4	15
	4	Public Choice: Voting	21	2	4	15
	5	Public Choice: Rent-Seeking, Interest Groups and Bureaucracy	21	2	4	15
	6	Cost-Benefit Analysis	19	2	2	15
	7	Taxation	23	4	4	15
	8	Social Justice	23	4	4	15
	9	Entitlements	21	4	2	15
	10	Fiscal Federalism	22	2	2	19
	11	Government's Growth and Constitutional Political Economy	22	2	2	18
Total Study Hours			228	28	32	168
Reading list	<p>Required: Hindriks J., Myles G.D. (2013). Intermediate Public Economics [Electronic resource]. Cambridge, Mass.: The MIT Press. Authorized access: https://ebookcentral.proquest.com/lib/hselibrary-ebooks/detail.action?docID=3339608&query=Public+Economics</p> <p>Optional: Global Encyclopedia of Public Administration, Public Policy, and Government [Electronic resource]/A.Farazmand (ed.). Springer, 2019 (Live edition). Authorized access: https://proxylibrary.hse.ru:2084/referencework/10.1007/978-3-319-31816-5</p> <p>Routledge Handbook of Public Policy [Electronic resource]/E. Araral, et al. (eds.), Routledge, 2012. Authorized access: https://ebookcentral.proquest.com/lib/hselibrary-ebooks/detail.action?docID=1101355.</p> <p>The Oxford Handbook of Public Choice. Vol.1-2 [Electronic resource]/ R.D.Congleton, B.Grofman, and S.Voigt (eds.). New York: Oxford University press, 2019. Authorized access: Vol.1: https://proxylibrary.hse.ru:4334/view/10.1093/oxfordhb/9780190469733.001.0001/oxfordhb-9780190469733?rskey=NURDtB&result=44;</p>					

	Vol.2: https://proxylibrary.hse.ru:4334/view/10.1093/oxfordhb/9780190469733.001.0001/oxfordhb-9780190469733?rskey=NURDtB&result=44
Grading system	Students' progress will be measured by students' activities in class and two in-class tests and final exam. The final grade formula is $0.4ex+0.6acc$, with the accumulated part being $0.2Q_1+0.2Q_2+0.6IP$. In other words, your 10 score grade comprises of 40% share of examination and 60% share of in-class tests and in-class participation (40% for two tests and 60% for in-class participation). Tests will be given in the end of each module and they will cover topics that have been already taught on the lectures as well as the books assigned for the course. The final examination will cover all of the course topics and assigned books. All the grades are rounded up to an integer number of points using standard mathematics rules.
Examination type	The exam is written and consists of two parts: 20 multiple choice questions (60%) and 2 problems (40% ; 20% each problem). Samples of the assessment materials are provided via LMS.
Methods of instruction	Lectures and tutorials (including students' reports presentations and discussions, solution of the problems and 2 tests)
Special Equipment and Software Support	Overhead projector, Internet access, LMS

Annex 1

Course Description

Topic 1. Public sector in modern economics

What is the public sector? Government in a narrow sense. Governmental budget, special funds, institutions and organizations. How to measure the government? Public spending as a share of GDP. Public employment. Government size and growth in modern economies: empirical evidence.

Topic 2. Public Goods & Club Goods

Types of Public Goods. Properties of public goods. Voluntary personal payments for public goods. Weakest-link and volunteer-type public goods. An efficient economy with public and private goods.

Information and Public Goods. Can governments solve the information problem? The Clarke tax and truthful self-reporting. User prices.

Club goods. The Tiebout locational-choice mechanism

Topic 3. Market Corrections: Externalities & Paternalism

Externalities. Private resolution attributes of externalities Private ownership solutions. The Coase theorem. Resolution of externalities through personal behavior.

Public Policies and Externalities. The case for government. The means of public policy Political decisions. Global externalities and international agreements.

Paternalistic Public Policies. Cases of paternalism and hyperbolic discounting. The limits of intuition: framing and bounded rationality. Community values and locational choice. Interdependent utilities and censorship.

Topic 4. Public Choice: Voting

The Median Voter and Majority Voting. Voting and efficient public spending. The Condorcet winner and efficient public-spending proposals.. Logrolling.

Political Competition. Direct and representative democracy . Political competition with a single issue . Political competition with multiple issues. Systems of voting and the Condorcet winner.

Arrow impossibility theorem. The failure of social choice.

Voting on Income Redistribution. Majority voting and income redistribution. The franchise and voting on income redistribution. The decision to vote. Who benefits from income redistribution?

Topic 5. Public Choice: Rent-Seeking, Interest Groups and Bureaucracy

Rent-seeking. Rent-seeking and non-productive behavior. Rent-seeking and social losses. Models of rent-seeking behavior. Corruption.

Interest groups. Interest groups and lobbying. Free-rider problem in the interest groups. The size of the interest group and effectiveness of lobbying. Interest groups and economic development.

Bureaucracy. The budget-maximizing bureaucrat: Niskanen model and extensions. The slack-maximizing bureaucrat. The government as Leviathan. Dictatorship.

Topic 6. Cost-Benefit Analysis

Costs and benefits without market valuations. Valuation over time. The discount rate and choice between public projects. Income distribution and cost-benefit analysis.

Topic 7. Taxation

Efficient tax-financed public spending. Tax revenue and the Laffer curve. Who pays a tax?. Tax incidence. The excess burden with substitution and income effects. Taxes on international trade.

Tax Evasion and the Shadow Economy. Tax evasion as free riding. The behavior of the tax authorities. The shadow economy. Inefficiency and illegality in a shadow economy.

Optimal Taxation. The Ramsey rule for efficient taxation. The equal-sacrifice principle for socially just taxation. Optimal income taxation. Political and social objectives.

Capital and Other Tax Bases. Taxation of income from capital. Corporate or company taxation. An expenditure tax and other taxes.

Topic 8. Social Justice

Social Justice and Insurance. Uncertain incomes and the demand for insurance. Social welfare functions and social insurance contracts. Choice of social insurance behind a veil of ignorance. Adverse selection and time inconsistency.

Moral Hazard. Moral hazard and insurance. Behavior without moral hazard. Moral hazard and adverse selection in diverse populations. Public-policy responses to moral hazard.

Social Justice without Government. Altruism and charity. Experimental evidence on norms of fairness. Intergenerational economic mobility. Global social justice.

Topic 9. Entitlements

The Attributes and Consequences of Entitlements. Money and in-kind transfers. Education and other rejected entitlements. Is equal opportunity achievable? Targeted entitlements and incentives. Universal basic income.

The Entitlement to Income during Old Age. An intergenerational social contract. Sustainability of intergenerational income transfers. Personal voluntary provision for retirement. Transition from intergenerational dependence.

The Entitlement to Health Care and Health Insurance. The problem of containing health costs. The market for health insurance. Socialized medicine. Health-care choices.

Topic 10. Fiscal Federalism

Efficiency, social justice, and fiscal federalism. Tax competition. Political behavior. Voting and fiscal federalism. Intergovernmental grants under federalism. The size of the government under federalism.

Topic 11. Government’s Growth and Constitutional Political Economy

Size and growth of the government. Explanations for the state and growth of the government. Wagner law. Baumol effect. Meltzer and Richard model. Interests groups, bureaucracy and growth of the government. Government size and economic performance.

Constitutional economics. Constitutional contract. Constitutional constraints. Government borrowing and constitutional restraint on government borrowing.

Annex 2

Assessment Methods and Criteria

Types of Assessment	Forms of Assessment	Modules			
		1	2	3	4
Formative Assessment	Test	*	*		
Summative Assessment	Exam		*		