

Public Economics: unit introduction

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We will investigate **government intervention** in the market economy.

- What are the reasons for government intervention?
- What is the optimal policy, given the rationale for intervention?
- How does the optimal policy compare with the actual policy in place?

Reasons for government intervention

Motives for government intervention fall into two broad categories:

1. Market failures / inefficiencies

- externalities (e.g. CO_2 emissions)
- presence of public goods (e.g. national defense)
- adverse selection (e.g. health insurance)

2. Unjust distribution of resources / excessive inequality

- inequality in income
- inequality in wealth
- unemployment

For each motive for government intervention, we will

1. use the theoretical model to find the optimal policy
e.g. optimal labor income tax, optimal unemployment benefit
2. compare the optimal policy with the actual policy in place.

The core of the unit is theoretical: we will use many models you have seen in Intermediate Economics 2.

We will also use some data, in order to (i) justify government intervention, (ii) find the optimal policy in the real world situations.

Tutorials will focus on problem-solving exercises.