

<b>COURSE TITLE:</b>	<b>PUBLIC FINANCE</b>
<b>COURSE CODE:</b>	<b>ECON 3016</b>
<b>LEVEL:</b>	<b>Undergraduate (Level III)</b>
<b>SEMESTER:</b>	<b>I</b>
<b>NO. OF CREDITS:</b>	<b>Three (3)</b>
<b>PRE-REQUISITE(S):</b>	<b>ECON 2001 and ECON 2002</b>

### **COURSE DESCRIPTION**

This course examines: the Role of Government in the Economy especially in Developing Countries and the Caribbean; Taxation (both direct and indirect) and its Impact on the Economy; the Theory of Public Sector Pricing and Production; the Design of Public Policy and the Scope and Limitations of Public Economic Policy.

### **PURPOSE OF THE COURSE**

ECON 3016: Public Finance is one of the Level III elective courses offered by the *Department of Economics*. It is designed to introduce you to the economics of government spending and taxation. The course focuses on analyzing the effects of expenditure programs and taxation policies on the economic behaviour of individual consumers, households and firms. The efficiency and equity effects of public policy will be discussed. Special emphasis will be placed on issues and challenges facing Caribbean countries.

### **LEARNING OUTCOMES**

Upon successful completion of this course the student will be able to;

- Provide arguments for the case of government intervention in a modern economy.
- Identify both market failure and government failure and explain the causes of each.
- Distinguish between public goods, goods produced by the public sector and goods provided by the public sector.
- Identify externalities, their impacts, and evaluate the relative merits of various public sector interventions designed to resolve the associated issues.
- Explain and critically evaluate the concepts of equity and efficiency as a basis for decision making in taxation and public expenditure.
- Explain the planning and budgeting process in developing countries
- Distinguish between tax avoidance and tax evasion and articulate the considerations relevant to the design of public policy to minimize tax evasion
- Analyse specific policy issues in the area of public expenditure and taxation from the perspectives of both traditional public finance and public choice

- Critically evaluate contemporary public debate on topics in public finance.
- Understand the usefulness and limitations of economic analysis in the field of public finance.
- Critically evaluate systems of taxation and proposals for tax reform

## **CONTENT**

### **1. The Nature of Public Finance**

1.1 The Rationale for State Intervention

1.2 The Nature of State Intervention

### **2. Analysis and Impact of Taxation**

2.1 Efficiency and Equity: Excess Burden and Incidence

2.2 Taxation and the Supply of Labour, Savings and Investment

2.3 Taxation in Developing Countries

### **3. Analyzing Public Expenditure and Budgeting**

### **4. Special Issue: Health and Equity**

## **ASSESSMENT**

There will be a coursework component which will account for 25% of the overall marks for the course, and a final exam at the end of the semester which will account for the remaining 75%. The coursework component will consist of a mid-term class quiz (10%) and an essay (15%) that will require the student to critically evaluate the design and application of a specific element of public finance management in any Caribbean economy, using the conceptual and analytical issues covered in this course. Students may use the websites of policy implementing agencies or other published material. The essay must not exceed 1750 words and shall be submitted by a deadline to be specified, but expected to be at least one week before the end of the semester. The lecturer will provide a limited number of topics for choice by students. Topics may include but will not be limited to issues of tax reform and debt management. The topics will be structured to test the students' mastery of the theoretical foundations of the course and to elicit their own critical thinking on appropriate policy design and implementation.

## **TEACHING STRATEGIES**

**Lectures:** Teaching will primarily take place through descriptive face to face lecture sessions and class discussions. Lectures will be conducted on Mondays between 2 pm – 4 pm. Each student is required to attend one two-hour lecture session per week.

**Tutorials:** Each student will also be assigned to a tutorial group which will meet once per week for one hour. The tutor will conduct the sessions on the assumption that all students in attendance have read/prepared the required material as indicated by the tutorial assignment(s). Each student will be required to prepare written responses to tutorial assignments and submit to the tutor. ***All students are expected to participate fully in these tutorial sessions.*** The tutor will maintain an attendance record which will be kept as part of the Department's records.

If necessary, make-up or additional lectures/tutorial sessions will be arranged in consultation with students.

### **LECTURER INFORMATION**

**Lecturer:** Dr. Althea LaFoucade  
Mr. Samuel Gabriel

**Office:** Room 208

**Telephone:** 662-2002 x83057

**Office Hours:** Fridays 1-3 pm

**Email:** [althea.lafoucade@sta.uwi.edu](mailto:althea.lafoucade@sta.uwi.edu)  
[samuel.gabriel@sta.uwi.edu](mailto:samuel.gabriel@sta.uwi.edu)

### **TEXTBOOK**

Howard, Michael, Althea La Foucade and Ewan Scott. 2009. *Public Sector Economics for Developing Countries*: 2nd Edition. Mona, Jamaica: UWI Press.\*\*\*

### **COURSE CALENDAR AND READINGS**

<b>Week (s)</b>	<b>Topic/Unit</b>	<b>Readings</b>
<b>1 - 3</b>	<b>1. The State and the Economy</b>	<b>1.1 The Rationale for State Intervention</b>  <b>References:</b>  Michael Howard, Althea La Foucade, Ewan Scott. 2009. <i>Public Sector Economics for Developing Countries: 2<sup>nd</sup> edition</i> . Mona Jamaica: UWI Press. Ch 1-4;***  A.B. Atkinson and J.E. Stiglitz. 1980. Lectures on Public Economics. McGraw-Hill Lecture 1, pp. 3-10.**  M.D. Reagan, The Managed Economy, Ch. 8.**

		<p>C.V. Brown and P.M. Jackson. 1991. <i>Public Sector Economics</i>. 4<sup>th</sup> edition. Ch. 2, “The Economic Rationale of the Modern State,” pp. 27-60.***</p> <p>World Development Report (1997), Ch. 1, “<u>The Evolving Role of the State</u>,” pp. 19-28.**</p> <p><a href="http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1997/06/01/000009265_3980217141148/Rendered/PDF/multi0page.pdf">http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1997/06/01/000009265_3980217141148/Rendered/PDF/multi0page.pdf</a></p> <p>Vito Tanzi. 1999. “The Changing Role of the State in the Economy - An Historical Perspective,” in <u>Fiscal Decentralisation in Emerging Economies</u>, eds. K. Fukasaku and Luiz de Mello, OECD. pp. 17 – 34.**</p> <p><a href="http://www.imf.org/external/pubs/ft/wp/wp97114.pdf">http://www.imf.org/external/pubs/ft/wp/wp97114.pdf</a></p> <p><b>1.2 The Nature of State Intervention</b></p> <p><b>References:</b></p> <p><i>Public Sector Economics for Developing Countries: 2<sup>nd</sup> edition</i>. 2009. Michael Howard, Althea La Foucade, Ewan Scott. Mona Jamaica: UWI Press. Ch 7, 9***</p> <p>R. Musgrave: 1959. <u>The Theory of Public Finance</u>. A study in public economy. McGraw-Hill. Chs. 1, 2, &amp; 4-6.*</p> <p>J. Williamson, “On the Characterization of Good Economic Policy: Is There a Consensus?” <u>World Development</u>, Sept. 1982.**</p> <p>Montek Ahluwalia, “The Scope for Policy Intervention,” in Chenery et al. <u>Redistribution and Growth</u>.*</p>
4 - 7	<b>2. Analysis and Impact of Taxation</b>	<p><b>2.1 Efficiency and Equity: Excess Burden and Incidence</b></p> <p><b>References:</b></p> <p><i>Public Sector Economics for Developing Countries: 2<sup>nd</sup> edition</i>. 2009. Michael Howard, Althea La Foucade, Ewan Scott. Mona Jamaica: UWI Press. Ch 14, 15, 21***</p>

		<p>R. Musgrave, op. cit., pp. 140-15.*</p> <p>Shah, Anwar and John Walley, “Tax Incidence Analysis of Developing Countries: An Alternative View,” <u>The World Bank Economic Review</u>, Vol. 5, No. 3, September 1991.*</p> <p><b>2.2 Taxation and the Supply of Labour, Savings and Investment</b></p> <p><b>References:</b></p> <p><i>Public Sector Economics for Developing Countries: 2<sup>nd</sup> edition.</i> 2009. Michael Howard, Althea La Foucade, Ewan Scott. Mona Jamaica: UWI Press. Ch 16, 17***</p> <p>Atkinson and Stiglitz, op. cit., Ch.2, pp.31–58, Ch. 3, pp.60–81 and 90–95.*</p> <p>Liam P.Ebrill, “Are Labour Supply, Savings and Investment Price-Sensitive in Developing Countries,” in <u>Supply-Side Tax Policy – Its Relevance to Developing Countries</u>, edited by Ved Gandhi (IMF).*</p> <p>Tax Reform in the Caribbean, Karl Theodore(ed.)</p> <p>C.V. Brown and P.M. Jackson, op. cit., Ch. 17, “Income Taxation and the Work/Leisure Choice,” pp.434-456.*</p> <p><b>2.3 Taxation in Developing Countries</b></p> <p><b>References:</b></p> <p><i>Public Sector Economics for Developing Countries: 2<sup>nd</sup> edition.</i> 2009. Michael Howard, Althea La Foucade, Ewan Scott. Mona Jamaica: UWI Press. Ch 18, 19,20***</p> <p>Vito Tanzi, “Quantitative Characteristics of the Tax Systems of Developing Countries,” in <u>The Theory of Taxation for Developing Countries</u>, edited by David Newberry and Nicholas Stern, A World Bank Research Publication, 1987. **</p> <p><a href="http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2000/03/23/000178830_98101911180371/Rendered/PDF/multi0page.pdf">http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2000/03/23/000178830_98101911180371/Rendered/PDF/multi0page.pdf</a></p>
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8 - 10	3. Analyzing Public Expenditure and Budgeting	<p><b>References:</b></p> <p><i>Public Sector Economics for Developing Countries: 2<sup>nd</sup> edition.</i> 2009. Michael Howard, Althea La Foucade, Ewan Scott. Mona Jamaica: UWI Press. Ch 6,7, 11***</p> <p>R.O. Khalid, “Planning and the Budget Process: An Introduction,” Finance and Development, 1978*</p> <p>A. Premchand, Government Budgeting and Expenditure Controls, Chs. 1, 6 &amp; 9. **</p> <p>World Bank, “Improving the Allocation of Public Spending,” World Development Report, 1988, Ch. 5. **</p> <p><a href="http://www-wds.worldbank.org/external/default/WDSCContentServer/IW3P/IB/2000/12/13/000178830_98101912131965/Rendered/PDF/multi_page.pdf">http://www-wds.worldbank.org/external/default/WDSCContentServer/IW3P/IB/2000/12/13/000178830_98101912131965/Rendered/PDF/multi_page.pdf</a></p> <p>UNECLAC. 1998. The Fiscal Covenant, Ch IV, “Public Expenditure,” pp. 99-130 *</p> <p>Karl Theodore. 2007. “Perspectives on Fiscal Policy for Trinidad and Tobago Budget 2007/8” Guest Lecture***</p> <p>Karl Theodore. 2000. A Fiscal Reform Agenda for the Caribbean: Fiscal Reform and Development.</p> <p>Rati Ram, “Causality Between Income and Government Expenditure: A Broad International Perspective.” AER reference**</p>
11	4. Special Issue: Health and Equity	<p><b>References:</b></p> <p><i>Public Sector Economics for Developing Countries: 2<sup>nd</sup> edition.</i> 2009. Michael Howard, Althea La Foucade, Ewan Scott. Mona Jamaica: UWI Press. Ch 8***</p>
12	5. Review /Recap Lecture Session	All of the above

\* Required Reading    \*\* Supplemental Reading    \*\*\* Highly Recommended

## **PLANNED COURSE ACTIVITIES**

### *Student Participation in planned Departmental activities for 2015/16*

1. Attendance at the Post National Budget Forum. Please contact the Department of Economics for the venue, date and time of this event.
2. Attendance at the Conference on the Economy (COTE 2015) on October 8 – 9, 2015.

## **ADDITIONAL INFORMATION**

### **Policies to Note**

Students are reminded of UWI Examination regulations 19 and 78 which states,

19. *“Any candidate who has been absent from the University for a prolonged period during the teaching of a has been unsatisfactory or who has failed to submit essays or other exercises set by his/her teachers, may be debarred by the relevant Academic Board, on the recommendation of the relevant Faculty Board, from taking any University examinations. The procedures to be used shall be prescribed in Faculty Regulations.”* In this connection, the Faculty of Social Sciences **requires students to attend and participate in at least 75% of lectures and tutorials.**

78. (i) *Cheating shall constitute a major offence under these regulations.*  
(ii) *Cheating is any attempt to benefit one’s self or another by deceit or fraud.*  
(iii) *Plagiarism is a form of cheating.*  
(iv) *Plagiarism is the unauthorised and/or unacknowledged use of another person’s intellectual efforts and creations howsoever recorded, including whether formally published or in manuscript or in typescript or other printed or electronically presented form and includes taking passages, ideas or structures from another work or author without proper and unequivocal attribution of such source(s), using the conventions for attributions or citing used in this University.*

All projects must therefore to be submitted to the Secretariat of the Department of Economics and must include an accountability statement.

### **How to Study for This Course**

Students should keep up to date with the course material via the suggested readings as well as the lecture notes and tutorial assignments. The Department is committed to supporting students in their quest to understand and indeed to excel. Please feel free to consult with your course lecturer and tutor as problems/issues arise. Students are strongly encouraged to visit the lecturer during stipulated office hours to discuss various issues and concerns. Alternatively, special appointments can be made (using the Instructor Information provided above) if necessary.

**New GPA Grading Scheme: From the Board for Undergraduate Studies**

<b>Grade</b>	<b>% Range</b>	<b>Grade Point</b>	<b>Grade Definition</b>	<b>Grade Descriptor</b>
A+	90 -100	4.3	Exceptional	Demonstrates exceptional performance and achievement in all aspects of the course. Exceptional application of theoretical and technical knowledge that demonstrates achievement of the learning outcomes. Goes beyond the material in the course and displays exceptional aptitude in solving complex issues identified. Achieves the highest level of critical, compelling, coherent and concise argument or solutions within the course.
A	80 – 89	4.0	Outstanding	Demonstrates outstanding integration of a full range of appropriate principles, theories, evidence and techniques. Displays innovative and/or insightful responses. Goes beyond the material with outstanding conceptualization which is original, innovative and/or insightful. Applies outstanding critical thinking skills
A-	75 - 79	3.7	Excellent	Demonstrates excellent breadth of knowledge, skills and competencies and presents these in appropriate forms using a wide range of resources. Demonstrates excellent evidence of original thought, strong analytical and critical abilities; excellent organizational, rhetorical and presentational skills.
B+	70 - 74	3.3	Very Good	Demonstrates evidence of very good critical and analytical thinking in most aspects of the course. Very good knowledge that is comprehensive, accurate and relevant. Very good insight into the material and very good use of a range of appropriate resources. Consistently applies very good theoretical and technical knowledge to achieve the desired learning outcomes.
B	65 - 69	3.0	Good	Demonstrates good knowledge, rhetorical and organizational skills. Good insight into the material and a good use of a range of appropriate resources. Good integration of a range of principles, techniques, theories and evidence.
B-	60 - 64	2.7	Satisfactory	Displays satisfactory evidence of the application of theoretical and technical knowledge to achieve the desired learning outcomes. Demonstrates sound organizational and rhetorical skills.
C+	55 - 59	2.3	Fair	Demonstrates fair breadth and depth of knowledge of main components of the subject. Fair evidence of being able to assemble some of the appropriate principles, theories, evidence and techniques and to apply some critical thinking.



<b>Grade</b>	<b>% Range</b>	<b>Grade Point</b>	<b>Grade Definition</b>	<b>Grade Descriptor</b>
C	50 - 54	2.0	Acceptable	Demonstrates acceptable application of theoretical and technical knowledge to achieve the minimum learning outcomes required in the course. Displays acceptable evidence of critical thinking and the ability to link theory to application.
F1	45 - 49	1.7	Unsatisfactory	Demonstrates unsatisfactory application of theoretical and technical knowledge and understanding of the subject. Displays unsatisfactory ability to put theory into practice; weak theoretical and reflective insight. Unsatisfactory critical thinking, organizational and rhetorical skills.
F2	40 - 44	1.3	Weak	Weak overall performance with very limited knowledge and understanding of the subject. Little evidence of theoretical and reflective insight. Weak organizational and rhetorical skills.
F3	0 - 39	0	Poor	Overall poor or minimal evidence of knowledge and understanding of the subject. Displays little ability to put theory into practice; lacks theoretical and reflective insights. Incomplete breadth and depth of knowledge on substantive elements of the subject. Little or no evidence of critical engagement with the material. Responses are affected by irrelevant sources of information, poor organizational and rhetorical skills.