

YSS3243 Public Economics

Semester 2 AY2021/2022

Prof. Naila Shofia

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office location: TBD

| Day | Start | End | Room |
|-----|-------|-------|--------|
| Mon | 10:30 | 12:30 | Y-CR18 |
| Thu | 10:30 | 11:30 | Y-CR18 |

Office hours: Mon/Thu 16:00 – 17:30 or by appointment.

Please book office hours at my scheduling page, <https://calendly.com/naila-shofia>. If you need to schedule a time outside of my office hours, please write me.

Course Description

Does providing income support for single mothers make them lazy and work less? How much should the government spend out of its GDP? (The US government spends only about a fifth while the Swedish spends about a half) Should we mandate health insurance for all citizens (like Germany) or provide free national healthcare instead (like the UK)? These are some of the most fiercely debated public policy questions in many countries. In this course, we will attempt to understand why the government intervenes in the economy and through which mechanism this intervention takes place.

This course will equip students with analytical and empirical tools to engage and critically analyze these questions and contribute to the debate. We will analyse the trade-off that the government faces in choosing the optimal policies, such as different kinds of taxes and subsidies, as well as their implications for inequality and economic efficiency.

We will discuss the cost and benefit considerations for various government social protection programs, public good provisions, environmental protection, and healthcare policies. We will also analyse how various actors may react to these policies and the implication of these reactions to the effectiveness of the policies themselves.

Learning Outcomes

At the end of the course students will be able to:

- Understand the taxation system the main institutional rationale behind its construction.
- Understand the main characteristics of government intervention in the areas of education, healthcare, environment protection, and social insurance
- Understand the role of government intervention on economic and social inequality.
- Understand and critically assess the key elements of the debate over the role of government intervention in the economy.
- Compare different approaches to public intervention, on the side of both expenditure and revenues collection.
- Analyse the alternative reform proposals of government interventions and analyse their potential implications.

Prerequisite

Principles of Economics (YSS1203) or YSS2203 Intermediate Microeconomics, or with the instructor's permission

Required readings

Jonathan Gruber, *Public Finance and Public Policy*, 6th edition, Worth Publishers, 2019

Assessment

1. Class participation and attendance (10%)
2. Two problem sets (20%, 10 percent each)
3. Mid-term exam (20%)
4. Final-term exam (30%)
5. Policy white paper (20%)

Course outline

The course is organized in three sections: The first part introduces the course and revisits some of the analytical tools we are going to use in this course, these include both theoretical and empirical tools. The second part discusses government intervention in response to market failure, such as externality and the provision of public goods. The third part elaborates government intervention in response to inequality through taxation and redistribution.

Introduction

1. Introduction to public economics and refresher of analytical tools (3 sessions)

Readings: Gruber Ch. 1, 2 and 4

Government policies responding to market failures

2. Externalities (1 session)

Readings: Gruber Ch. 5 - 6

3. Public goods provision (4 sessions)

Readings: Gruber Ch. 7,9,10, and 11

4. Social insurance (6 sessions)

Readings: Gruber Ch. 12 – 16

Mid-term exam

Government policies responding to inequality

5. Background and tax incidence (4 sessions)

Readings: Gruber Ch. 17 – 19

6. Labor income taxes and transfers (4 sessions)

Readings: Gruber Ch. 20 - 21

7. Capital income taxation (3 sessions)

Readings: Gruber Ch. 22 – 25

Final-term exam