Aims

EC3341 Public Economics is suitable for advanced undergraduate students with knowledge of microeconomics and basic econometric methods. The course aims to provide students with a broad range of the methods and models for analysing government expenditure policies. A key focus is on the link between theory and empirics, specifically the relation between policy design and behavioural responses. In addition to general principles, some specific policies such as welfare benefits, in-work benefits, and social insurance programmes will be considered.

Learning Outcomes

Upon completion of the course students should:

1. have an overview of available empirical methods for evaluating public policy;
2. be familiar with standard models of optimal redistribution and social insurance;
3. be familiar with the likely behavioural responses to government expenditure programmes;
4. understand some of the limitations of the available theories, e.g. in relation to household behaviour.

Course Delivery

The course will be delivered through a two-hour lecture and a one-hour seminar each week. During the lecture hour some time will also be spent on problem sets. The detailed learning outcomes and recommended reading for each week are outlined below.

The lecturer is available to students for consultation during advertised office hours or by appointment.

There is a course website at http://moodle.rhul.ac.uk
Assessment
Formative assessment:
- problem sets will be discussed during the lecture

Summative assessment:
- Two-hour unseen examination, which contributes 65% to the final mark. The examination will test students’ knowledge and understanding of the material covered in the course. In particular it will test the ability to (i) solve numerical or algebraic versions of the models you have learned, (ii) apply models to “real-world” economic situations, (iii) appraise critically certain models and their applications.
- A take-home combined essay and data analysis ("replication exercise") contributes 25% to the final mark.
- A presentation contributes 10% to the final mark

Dates of tests and deadlines for the submission of assessed coursework can be found in the Departmental Student Handbook and on the Economics Department website.

Reading
There is no textbook that closely matches the taught material. Hence we will be relying heavily on lecture notes. However, the following book will be used at different points in the course:


Multiple copies of the book by Gruber will be available on short loan in the Bedford Library. Students are encouraged to buy their own copy (available from the campus bookshop).

In addition the course will draw on a number of journal articles (see the Lecture outlines below).

Weekly Timetable

Lecture 1 Empirical Methods for Public Policy Evaluation (DA)

By the end of this topic the student should
1. understand the identification problems of policy evaluation
2. have a basic understanding of alternative empirical methods of policy evaluation

Lecture 2 Market Failures - Externalities and Public Goods (DA)

By the end of this topic the student should
1. Understand the Coasian "solution" to the externality problem
2. Be familiar with basic public policy approaches to solving the externality problem
3. Understand the Samuelson rule for optimal provision of a public good
4. Have a basic knowledge of the problem of under-provision when public goods are privately provided

Lecture 3 The Design of Redistributive Policy (DA)

By the end of this topic the student should:
1. Be familiar with the Mirrleesian optimal income tax model and some extensions
2. Be aware of the applicability of optimal income tax theory to tax and welfare design

**Lecture 4  Education (DA)**

By the end of this topic the student should:
1. Be familiar with issues in measuring the return to education
2. Have an awareness of the justifications for intervention in education markets and wider benefits to education
3. Be familiar with key evidence on behavioural responses to policy

**Lecture 5  Public Policy and the Family (DA)**

By the end of this topic the student should:
1. Be familiar with the notion of impact of public policy on family decisions.
2. Be aware of models of family behaviour and the implications for policy design.

**Lecture 6  Income Taxation and Labour Supply (ML)**

By the end of this topic the student should:
1. be familiar with the empirical methods for analysing the labour supply effects of taxation
2. have a basic awareness of what the key findings in the literature are
3. be familiar with the in-work benefit policies in the UK and the US
4. be familiar with the key empirical findings regarding the behavioural responses to these policies.

**Lecture 7  Social Insurance (ML)**

By the end of this topic the student should:
1. understand the theoretical justification for intervention in insurance markets
2. be familiar with the idea of crowding out of private channels for consumption smoothing
3. understand the measurement of the consumption smoothing

**Lecture 8  Social Security (ML)**

By the end of this topic the student should:
1. Be familiar with the multi-pillar design of pensions systems
2. Have an awareness of the empirical evidence for crowding out between different forms of old-age provision
3. Be familiar with the nature of recent pensions reforms and their implications
Lecture 9+10  Health: Shocks, Services and Insurance (ML)

By the end of this topic the student should
1. Be familiar with the key relation between education/income and health
2. Have an understanding of how to think about health as capital subject to shocks.
3. Be familiar with the modes of health care provision and health insurance provision.
4. Understand the role of adverse selection and moral hazard and how these are mitigated in the design of health insurance programs