

Course Outline

Public Economics - EC5150

Course Leader: Prof. Dan Anderberg

Spring Term – 20 credits

Version 1.0

AIMS

EC5150 Public Economics is suitable for advanced 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 one 2-hour lecture, and one 1-hour seminar each week, over a 10 week period. 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 www.moodle.rhul.ac.uk

ASSESSMENT

Formative assessment:

- problem sets will be discussed during the lecture

Summative assessment:

- Two-hour unseen examination, which contributes 75% 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.
- One-hour test, which contributes 25% 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:

Gruber, J. (2010) *Public Finance and Public Policy (3rd edition)*, Worth Publishers.

Angrist, J. and J.-S. Pischke (2009) *Mostly Harmless Econometrics*, Princeton University Press

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

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

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 Optimal Taxation

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 Welfare Design

By the end of this topic the student should:

1. Be familiar with common key features of welfare programmes: tagging, quantity constraints
2. Be able to discuss these in the context of an optimal income tax model

Lecture 5 Taxes and Labour Supply

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 6 Social Insurance

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 7 Welfare Policy: Empirics

By the end of this topic the student should

1. Be familiar with the theoretical effect of welfare programmes on labour supply
2. Have an awareness of the empirical evidence for labour supply effects

3. Be familiar with the 1996 US welfare reform and its effects
4. Have a basic familiarity with the empirical evidence on the effect of welfare programs on economic well-being

Lecture 8 Education

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 9 Health

By the end of this topic the student should

1. Be familiar with the key relation between education/income and health
2. Have a understanding of key empirical findings related to health externalities in the area of smoking.

Lecture 10 Student Presentations

Students will work in groups to present a paper to the class.