

PG Course Outline

EC3341: Public Economics

2019/20

SPRING

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Aims

EC3341 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 taxation, optimal redistribution, social insurance and social security;
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 60% 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 student presentation in class which will contribute 10% to the final mark

- An essay including a short empirical analysis contributes 10% to the final mark
- Two assessed homeworks, contributing each 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 on lecture notes and journal articles. However, the following book will be used at different points in the course, and gives an overview over each topic we cover:

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 (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

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

By the end of this topic the student should:

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

Lecture 4 Public Policy and the Family

By the end of this topic the student should

1. Have some understanding of how public policy can affect key individual decisions relating to family outcomes.
2. be aware of the notion of the marriage tax/penalty
3. be familiar with the standard model of fertility and how the tradeoff between quantity and quality depends on the economic environment.

Lecture 5 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 6 Income Taxation 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 7 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 8 Social Security: Pensions and Disability Insurance

By the end of this topic the student should

1. Be familiar with the theoretical effect of pensions on intertemporal choice
2. Have an awareness of the empirical evidence on the impact of pensions reform
3. Understand the complexities in designing disability insurance programs
4. Have a basic familiarity with the empirical evidence on the effect of social security on economic well-being

Lecture 9 Health insurance and Public Health Interventions

By the end of this topic the student should

1. Be familiar with the information asymmetries present in the healthcare market
2. Understand the design of health insurance
3. Understand the impact of Public health interventions

Lecture 10 Health Choices and Health Shocks

By the end of this topic the student should

1. Be familiar with the health-education and health-wealth gradients
2. Understand the identification issues regarding these links