



Department of Economics and Finance

ECON*3610
Public Economics
Fall 2013



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Office Hours: Tuesdays and Thursdays, 4 -- 5:30 pm
Course website: <http://www.uoguelph.ca/~jamegash/Econ3610.htm>

It is your responsibility as a student to be aware of and to abide by the University's policies regarding academic misconduct, e-mail communication, maintaining copies of out-of class assignments, what to do when you cannot meet a course requirement and the drop date for this semester. To better understand these policies, visit:

<http://www.uoguelph.ca/economics/node/1115>

COURSE OUTLINE

In the wake of the global financial crisis that reached its peak in 2008, the role of government, markets, and regulatory agencies requires some scrutiny. Public Economics is a systematic economic study of the functions of government and markets. Roughly twenty-five percent of Canada's national output is purchased by government, and approximately one-third of national income is collected in taxes. This course evaluates both market performance and government intervention, and critically reviews the main sources of tax revenue. The objectives of this course are to develop the requisite theoretical tools for an economic study of the public sector, introduce the student to institutional fiscal arrangements in Canada, and develop an appreciation of public sector expenditure and taxation. This course is grounded in microeconomic theory; the prerequisite is ECON*2310.

EVALUATION

Your final grade will be determined by the following:

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| 2 Assignments: Assignment 1 - Due Oct. 11 | 10% |
| Assignment 2 - Due Nov. 19 | 10% |
| Mid-term: October 22 | 30% |
| Final Examination: Dec. 10th from 11:30-1:30 pm | 50% |

If you have legitimate reasons for missing the midterm or not handing in an assignment, the weight will be moved to the final.

Late assignments will NOT be accepted.

The final exam will be cumulative.

You will be asked to complete an **in-class** evaluation of this course at some time during the last two weeks of the semester. The Department of Economics policy regarding the conduct and use of these evaluations will be found at

<http://www.uoguelph.ca/economics/academics/courses/course-evaluation>

READING MATERIAL

The required text for this course is:

Harvey Rosen, Jean-Francois Wen, and Tracy Snoddon, **Public Finance in Canada. Fourth Canadian Edition**, McGraw-Hill Ryerson Ltd.

Notes will be given in class. Since no textbook is perfect or contains all the information on a particular subject, some material that will be covered in class will **not** be in the textbook. This means that we shall spend more time on certain chapters than the length of the chapter in your textbook warrants.

Chapter 1 of the textbook will not be covered in class. But you are responsible for reading it.

We shall, among others, cover the following chapters:

Chapter 2: Fundamentals of Welfare Economics

The whole chapter including the appendix

Chapter 3: The Economic Roles of Government

Like chapter 1, this chapter is really an overview of material that will be covered in subsequent chapters. You should read it on your own. Will discuss some other relevant material if there is time.

Chapter 14: Taxation and income distribution

The whole chapter except the following subsections:

“Commodity taxation with monopoly” and everything beginning at “Tax incidence and capitalization” and beyond

Chapter 15: Taxation and efficiency

The whole chapter except the following subsections:

Differential taxation of inputs

We shall cover the material in appendix A (not B).

Chapter 16: Efficient and equitable taxation

The whole chapter

Chapter 19: Consumption Taxation

The whole chapter except the following subsections:

Hall-Rabushka flat tax

Annual versus lifetime equity

** We shall spend an entire lecture or two on the HST (Harmonized Sales Tax) in Ontario. This is not covered in any detail in your textbook.

Chapter 8: Fiscal Federalism

Everything except the subsection on “the theory of intergovernmental grants”. This subsection leads to the figures 8.2, 8.3, 8.4 in the fourth edition and figures 9.2, 9.3, 9.4 in the third edition. Ignore these figures.

Chapter 6: Income Distribution

The whole chapter except the subsection on “asymmetric information”. We shall discuss asymmetric information and redistribution based pages 55 to 59 of my article titled “Self-selection, optimal income taxation, and redistribution” which appeared in the *Journal of Economic Education*, Vol 40, Winter 2009: 55-67. I shall post the article at courselink at the appropriate time.

Chapter 4: Public Goods

The whole chapter

Chapter 13: Health Care

The whole chapter.

Note: Time permitting, we shall cover additional chapters. But this is not likely.

Learning Objectives

Skills:

a) *Numerical Problem Solving:*

Students will *learn* basic problem solving techniques using tools acquired in microeconomics.

This

includes, for example, techniques to *calculate* tax rates, *determine* deadweight losses of government policies, Fiscal Equalization Payments under Canada's Federal system. This will be tested on assignments, the midterm, and final.

b) *Analytical Problem Solving:*

The course will use algebraic and graphical *analysis to demonstrate and interpret* various economic models of taxation and public expenditure and government policies like Value-Added Taxes. This will be tested on assignments, the midterm, and final.

c) *Problem Solving in a Real World Context:*

Students will *apply* the principles learned in this course to critically *examine* economic policies like Ontario Harmonized Sales Tax. This will be tested on assignments, the midterm, and final.

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d) *Professional and ethical awareness and conduct:*

There will be no extensions on assignments in order to access *time management* skills.

Knowledge:

a) *Mathematical Methodology:*

Students will *apply* mathematical concepts and tools, such as computing the slope of a line or graphing the relationship between variables, to *explain* basic economic models and the interaction between economic variables. This will be tested on assignments, the midterm, and final.

b) *Microeconomic Modeling:*

Students must *understand* basic principles of microeconomics (including demand and supply, utility and consumer choice, production and cost, market structure, government

intervention, credit markets), **demonstrate** basic economic models and **discuss** how these models work. All of the assessment tools in this course will test these ideas with reference to public economics.

c) ***Understanding of Specific Markets:***

Specific markets will be **analyzed** in this course, including goods, housing, health care, labor, and credit markets with particular emphasis on the government's role in these markets.

d) ***Economic Policy and Regulation:***

Students must **understand** the successes and failures of government intervention in the market and **explain** the role of public policies, such as competition policy, environmental policy, and trade policy. This will be tested on assignments, midterm and final exam.