

Economics 179: **Decisions in the Public Sector**
Spring 2005

Syllabus

Instructor: Iván Major
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Lectures: MWF 2:00–2:50 p.m.

Teaching assistants: Zhigang Li
Office hours: Fr 10:00–12:00
Xi (Cissy) Wu
Office hours : MoWe 3–4 pm.

Visiting professor, Department of Economics, UCSD
Office: 108 Economics
Office hours: MW 3:00–4:00 p.m.
Classroom: CENTR 105

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Course outline

This course deals with the most important aspects of social welfare, efficiency and fairness and with the critical economic issues of the political decision process. The course builds on basic micro- and macroeconomic concepts and models and applies those models to the analysis of social (public) choice, to public production and to the economic functions of government. The lectures and other course material cover three main areas of public economics:

- (1) The basics of welfare economics;
- (2) Public production of goods and services and government regulation;
- (3) An introduction to taxation theory and practice.

You will be required to work in teams on different issues of public economics and present the results of your analysis in class. Each presentation will be followed by a discussion. Presentations and discussion will help you apply the sophisticated tools *Public economics* offers, but you will also better understand the role of history, culture and institutions in shaping the political process and the economic role of government in different regions of the world.

Required textbook:

Stiglitz, Joseph E, *Economics of the Public Sector*, Third edition, 2000, New York, N.Y.: Norton (referred to as JS)

Lectures and Problem Sets

The lectures will cover topics that are not necessarily included in the textbook. If you miss a class, borrow someone else's notes.

You will be required to work on 2 problem sets. Work can be done in teams. Late submission of problem sets will not be accepted.

You will be asked to prepare a class presentation in a team. Topics to be presented will be discussed in class.

In addition, you will be required to write an essay of maximum 10 pages. The essay can be on any topic that is relevant to the course. You need to agree with me on the topic before writing and submitting the essay.

Due date for problem sets:

- Problem set 1 is due by 9th class
- Problem set 2 is due by 18th class
- Essay is due by 27th class

Mid-term exam: April 29, 2005

Final exam will not be cumulative.

Grading

Problem sets	20%
Essay	15%
Class participation	5%
Midterm exam	25%
Final exam	35%

Grade scale

A±	B±	C±	D
81–100	70–80	60–69	50–59

Course Outline

1. week: The Public Sector and the Role of Government
 - a. The Public Sector: Scope and Historical Perspective
 - b. Different Views on the Role of the State and Government
 - c. The Public Sector and Government in the US
 - d. General equilibrium

Readings: JS, Ch. 1–3;

2. week: Market Efficiency and Efficient markets
 - a. Market Failure
 - b. Decision and Information

Readings: JS, Ch. 3–4.

3. week: Welfare Economics: An Introduction (2)
 - a. Social Choice 1
 - b. Social Choice 2
 - c. Social Welfare Functions 1

Readings: JS, Ch. 5–6.

First problem set is due by 9th class

4. week: Welfare Economics: An Introduction (3)
 - a. Social welfare functions 2
 - b. Efficiency and Equity
 - c. Public Goods

Readings: **JS**, Ch. 6–7.

5. week: Public Production and Externalities

- a. Externalities
- b. Public production 1
- c. Public production 2

Readings: **JS**, Ch. 8–10.

Mid-term exam: April 29, 2–2:50 pm

6. week: Public Production and Externalities (2)

- a. Defense and technology
- b. Environment, Healthcare
- c. Social Insurance and Welfare Programs

Readings: **JS**, Ch. 9, 12, 14–16.

Second problem set is due by 18th class

7. week: Public Production in Practice

- a. Defense and R&D
- b. Environment and Education
- c. Social Insurance and Healthcare

Readings: **JS**, Ch. 9, 12–14, 16.

8. week: Cost-Benefit Analysis and Regulation

- a. Cost-Benefit Analysis 1
- b. Cost-Benefit Analysis 2
- c. Regulation 1

Readings: **JS**, Ch. 10–11.

9. week: Regulation and Management and Budgeting

- a. Regulation 2
- b. Management and Budgeting 1
- c. Management and Budgeting 2

Readings: **JS**, Ch. 10.

Third problem set is due by 27th class

10. week: Fiscal federalism and Taxation

- a. Taxation Theory and Optimal Taxation
- b. Fiscal Federalism
- c. State and local government finances
- d. Deficit finance

Readings: **JS**, Ch. 17–20, 26–28.

Final exam: