

**THE UNIVERSITY OF THE WEST INDIES
DEPARTMENT OF ECONOMICS**



COURSE CODE AND TITLE:	ECON3016 – Public Finance
SEMESTER/YEAR:	Semester I - 2020/21
OFFICE HOURS:	Tuesdays 12-1pm; Wednesdays 12-1pm
PREREQUISITES:	ECON2000 & ECON2001 <i>(Intermediate Microeconomics I and II)</i>
ANTI-REQUISITES:	None
LECTURER:	Dr Christine Clarke <i>Email: christine.clarke03@uwimona.edu.jm</i>

COURSE DESCRIPTION:

In this course students examine the rationale for government intervention in a market economy, the assessment of public policy, and the impact of government expenditures and Taxation on the economy and the citizenry. Topics include government activities, externalities, public goods, fiscal deficits and public debt, principles of taxation, incidence, and effects of taxation, optimal taxation, and public sector reform.

LEARNING OUTCOMES:

Upon successful completion of the course, students should be able to:

1. Explain the central importance of public finance in a modern economy.
2. Differentiate between market failure and government failure.
3. Distinguish between public goods, goods produced by the public sector and goods provided by the private sector.

4. Identify positive and negative impacts that are generated outside of market transactions
5. Evaluate the relative merits of various private and public sector interventions to resolve the attendant problems.
6. Use net present value as a basis for project selection and to differentiate between social and private cost-benefit analysis.
7. Explain how and why taxation may have other effects than those explicitly intended.
8. Explain the impact of alternative forms of taxation on economic efficiency.
9. Explain the considerations relevant to designing an optimal system of taxation in balancing equity and economic efficiency.
10. Identify the difference between tax avoidance and tax evasion and articulate the considerations relevant to designing policy to minimize tax evasion.
11. Critically evaluate systems of taxation and proposals for tax reform.
12. Analyse the basis for the accumulation of public debt and weigh options for the correction of chronic indebtedness.

MODES OF DELIVERY:

- One (1) MANDATORY Combined Lecture and Tutorial weekly [Duration: - three (3) hours]

RULES FOR TUTORIALS & LECTURES:

- PLEASE READ, READ, READ the required readings from the principal texts for each chapter before classes, so we can have fruitful and powerful discussions during class. The lecturer is not just there to lecture, but to impart knowledge, skills and techniques and guide discussions concerning a range of topics. You will also be expected to read widely, not wildly around the areas of focus for this class to give you insight. Under each unit on OURVLE, there will be additional material posted for you to read, important for your exams and doing well overall in this course. NOTE THAT EVEN WITH LECTURE SLIDES, EVERYTHING CANNOT BE COVERED IN CLASS AND THEREFORE YOU WILL BE REQUIRED TO READ ON YOUR OWN AND DO SERIOUS WORK ON YOUR OWN TO COVER MATERIAL WE HAVEN'T COVERED IN CLASS.
- After 10 minutes you are considered late for class, and this puts you at a disadvantage for proper learning, making it difficult to follow some of the material and so forth. Please ensure that you are early for classes, and ready to work. Please be respectful to the lecturer and your fellow classmates, and put your phones on silent. If you come late, enter discreetly and towards the back of the class so that you don't disrupt others.
- Please research and do all the tutorial questions on the problem sets each week before your tutorial, as the tutor will not be just coming to class to give you solutions. This will not help

you to understand the material and to be able to approach problem solving and critically think in your exams, or even life.

- Students are expected to ask questions in the lectures and tutorials, and/or be engaging. If there are any problems with understanding the material, students should raise their hands and ask the lecturer for clarification, and not wait until the end of the lectures or close to exams to bombard the office hours of the lecturer. Any questions that cannot be answered at the time in which it is asked, an answer will be given in a timely manner (during the next class) after consideration or further research.
- In the case that a student misses a lecture (without official documentation explaining the absence), he/she will not be facilitated; lectures will not be re - delivered. The same goes for tutorials. If you miss a lecture or tutorial it is your responsibility to go through the material you missed thoroughly to try and understand on your own, and if there are any points which you don't understand, you may consult the lecturer or tutor during office hours.

ASSESSMENT:

Two Take Home Assignments (10% each)	20%
One page of typed text Unlimited but essential tables Bibliography	
Mid-semester examination - Take home short answer questions	30%
Final examination - Take home short answer questions (Comprehensive)	50%

RESOURCES:

Principal Texts

1. Rosen and Gayer: *Public Finance* (Mc. Graw Hill Education) 10th Ed (Sep 10, 2013.) { **P**}
2. Howard Michael: *Public sector Economics for Developing Countries* (UWI Press) 2001 { **P**}
3. Stiglitz, Joseph E: *Economics of the Public Sector* (Norton) 3rd Ed (2000) {**P**}

NB. These texts are available on OURVLE. Any other readings/ or materials required for this course will be provided on OURVLE or you will need to source them at the library (SALISES or MAIN LIBRARY).

SYLLABUS:

Unit 1: Introduction: Why study Public Finance?

- Introduction to Public Sector Economics (Public Finance)
- Government under the microscope

Readings:

Stiglitz, Joseph E: <i>Economics of the Public Sector</i> (Norton) 3 rd Ed (2000)	<i>Chapter 1</i>
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Unit 2: Theoretical Tools and Concepts of Public Finance (Microeconomics Review)

- Constrained Utility Maximization
- Equilibrium and Social Welfare
- Market efficiency and Market Failure
- Conditions under which markets are or are not Pareto efficient
- First Fundamental Theorem of Welfare Economics
- Second Fundamental Theorem of Welfare Economics
- Social Efficiency: Consumer Surplus, Producer Surplus, Social Surplus, Deadweight Loss

Readings:

Rosen and Gayer: <i>Public Finance</i> 10 th Ed	<i>Chapters 2 & 3</i>
<i>Howard</i>	<i>Chapter 1</i>

Unit 3: Public Goods

- Public goods, “social entitlements” private goods
- Public goods the free rider problem and market failure
Provision of public goods
- Education

Readings:

<i>Howard</i>	<i>Chapter 2</i>
Rosen and Gayer: <i>Public Finance</i> 10 th Ed	<i>Chapters 4 & Chapter 7</i> (p. 134 – 137)

Unit 4: Externalities

- Externality Theory
- Private-sector solutions to negative Externalities
- Coase's Theorem
- Limitations of private remedies
- Public sector remedies for Externalities

Readings:

Howard	Chapter 2
Rosen and Gayer: <i>Public Finance</i> 10 th Ed	Chapter 5 (p. 71 – 94)

Unit 5: Private and Social Cost-Benefit Analysis

- Net Present Value vs Internal Rate of Return vs. Benefit---Cost as Criteria for project selection.
- The impact of inflation and taxation on project selection
- Social vs. private benefits and costs and discount rate
- The appropriate rate of discount for intergenerational projects.
- Distributional issues and the appropriate social welfare function.

Readings:

Stiglitz, Joseph E: (Norton) 3 rd Ed (2000) <i>Economics of the Public Sector</i>	Chapter 11 (p. 271 – 275)
Rosen and Gayer: <i>Public Finance</i> 10 th Ed	Chapter 8 (p. 150 – 159)
Howard	Chapter 9 (p. 109 – 111; Section: Financial Decision Criteria)

Unit 6: Taxation: Principles and Its Incidence

- Types of taxation
- Desirable characteristics of any tax system
- Factors determining the distribution of tax burden
- Definition of tax incidence: who pays?
- Forward and backward incidence.
- The impact of demand and supply elasticities.

Readings:

Stiglitz, Joseph E: <i>Economics of the Public Sector</i> (Norton) 3 rd Ed (2000)	Chapter 17 (p. 451 – 476) & Chapter 18 (p. 482 – 496)
Rosen and Gayer: <i>Public Finance</i> 10 th Ed	Chapters 14 (p. 304 – 307)

Unit 7: Taxation and Economic Efficiency

- Distortionary taxes
- Measurement of impact of distortion as deadweight loss or excess burden
- Analysis of excess burden of subsidies and factor market taxes.
- The Mathematics of Optimal Taxation
- Elasticities determining Tax Efficiency
- Proportional vs. progressive income tax systems.
- Is a progressive tax system necessarily more efficient than a proportional tax system?

Readings:

Stiglitz, Joseph E: <i>Economics of the Public Sector</i> (Norton) 3 rd Ed (2000)	Chapter 19 (p. 518 – 529) & Chapter 20
Rosen and Gayer: <i>Public Finance</i> 10 th Ed	Chapters 15 (p. 331 – 343) Chapters 16 (p. 353 – 358; p. 362 - 370)

Unit 8: Tax avoidance and tax evasion

- Definition: tax avoidance and tax evasion
- Theory of Tax Evasion
- Means of tax avoidance
- Tax evasion and the unmeasured economy
- Policies to enhance tax compliance

Readings:

Rosen and Gayer: <i>Public Finance</i> 10 th Ed	Chapter 16 (p. 370)
Stiglitz, Joseph E: <i>Economics of the Public Sector</i> (Norton) 3 rd Ed (2000)	Chapter 24

Unit 9: Fiscal Policy Reform in Jamaica

- What are the fundamental arguments for tax reform?
- Sources of fiscal deficit
- Consequences of fiscal deficit
- Chronic fiscal deficit and intractable public debt.
- Options for easing the burden of public debt
- Proposals for and implementation of tax reform
- Application of Ramsey's Rule in tax reform
- The politics and economics of tax reform in Jamaica

Readings:

Rosen and Gayer: <i>Public Finance</i> 10 th Ed	<i>Chapters 20</i>
Stiglitz, Joseph E: <i>Economics of the Public Sector</i> (Norton) 3 rd Ed (2000)	<i>Chapter 28 (p. 782 – 785)</i>

OTHER RECOMMENDED BOOKS & READINGS:

Other readings and materials which may become relevant will be posted on **OurVLE**.

SOME TIPS ON HOW TO GET AN A+:

You need to:

1. Engage with the material and lecturer during class, tutorials and office hours
2. Work consistently throughout the semester. **Rule of thumb 3 hours every week minimum apart from lecture, tutorials, and office hour visits.**
3. Keep track of the questions you have and clarifications you have and raise them in lecture, tutorial or office hours.