# Public economics: Winter term 2024

Course teacher: Eliška Vejchodská, Ph.D., Contact: [eliska.vejchodska@fsv.cuni.cz](mailto:eliska.vejchodska@fsv.cuni.cz)

Schedule: 1/1 (2 hours a week consisting of the lecture + seminar in one 80-minute session)

Moodle of the course: <https://dl1.cuni.cz/course/view.php?id=16441>

## Summary of the content of the course

The course introduces students to the economics of the public sector. It provides the theoretical underpinnings for the interventions of the public sector into the economy including public expenditure analysis and taxation issues. It discusses the questions of when and how to intervene into the market and which effects do the interventions have. It familiarises students with public intervention practice within selected public policy areas and the research techniques taking place within public sector policy analysis.

## Student learning outcomes:

By the end of the course, students will:

* explain the purposes of the public sector interventions lying in efficiency and equity
* identify possible approaches for testing the causal effects of public policy
* understand theoretical tools of the assessment of public sector interventions
* be acquainted with the practical applications of the public policy analysis
* apply economic theory on real public policy problems
* explain public finance perspective of public services provision

## Assessment of outcomes:

The students may obtain 100 points altogether for fulfilling following tasks:

1. demonstrating preparedness for the work during seminars – max. 50 points (max. 5 points each seminar)
2. final exam (tests for the level of understanding without the need of memorising) – 50 points
3. voluntary activity: reading outcome – 10 points by which it is possible to compensate for the loss of points elsewhere.

The minimum required is 50% in each compulsory task.

ad a) The sessions will be devoted to the work with the knowledge obtained from materials which students will study at home. Students will be trained to explain, argue, compare as well as apply the knowledge to new areas of interest. Generally, the materials for study at home will include i) lecture videos; ii) selected book chapters; iii) speeches of leading scholars in public economics.

ad b) Final exam covers all materials studied at home and discussed within lectures and seminars and tests the ability of students to explain, argue, compare as well as apply the knowledge to new areas of interest. Students will provide responses in open questions. Own notes in own handwriting allowed on an A4 sheet of paper with both sides used.

ad c) Students may select a book from which they will read a selected part (1/4 of the book as minimum). They will summarise the main and most important findings of it with detailed reference to pages of the book + what they found interesting / controversial / convincing + how does the topic relate to their own research or study interest (2 pages maximum). Students may select a book from the list or propose another book related to public economics (in Appendix to syllabus).

## ECTS credits:

7 ECTS (1 ECTS = 30 hours)

Contact teaching (lectures and seminars): 18 hours

Study at home for discussion seminars: 168 hours

Final exam + studying for final exam: 24 hours

## Final grading:

according to the Dean’s decision 17/2018:

91 % and more => A

81-90 % => B

71-80 % => C

61-70 % => D

51-60 % => E

0-50 % => F

## Content of the sessions

The attendance to sessions is mandatory. The sessions are based on the discussion of the materials which students are supposed to read / listen to in advance combined with a supplementary material presented by the lecturer or a presentation by students. While preparing for the sessions, students will follow pre-defined questions related to study-at-home materials.

1. Opening session: The size of the public sector within the economy
   * Discovering the context: key issues definitions and their relations
2. The role of the public sector
   * Functions of the sector – stabilising, allocative (market failures + paternalistic approach within merit goods), distributive

*Lecture at place: Gruber ch.1, alternatively: Stiglitz ch. 1,2*

*Video: Esther Duflo – Good Economics for hard times, radio interview - set questions + how do the different topics of public policy relate to the functions of the public sector?*

1. Theoretical and empirical tools used to analyse public policy
   * Optimisation, social preferences and utility curves with budget constraints.
   * First and second fundamental theorem of welfare economics
   * Social efficiency, social welfare
   * Causality within public policy vs. correlation
   * Different methods to test causality – approaches and their real applications (experiments, quasi-experiments, time series analysis, regression analysis)

*Theoretical tools: Video lecture / Reading: Gruber ch.2, alternatively: Stiglitz ch. 7*

*Empirical tools: Reading: Banerjee + Duflo – Chapter “From the mouth of the shark” on migration*

*During the seminar: Ppt on empirical tools, control questions on theoretical tools; discussion of Chapter on empirical tools*

1. Externalities
   * Theory of externalities and types of externalities
   * The Coase theorem – private solution to externalities
   * Pigou’s solution to externalities – corrective taxes
   * Other public sector solutions to externalities
   * Polluter pays principle

*Video lecture / Reading: Gruber ch. 5, alternatively: Stiglitz ch. 6*

*Paper: SANTOS, Georgina. Road fuel taxes in Europe: Do they internalize road transport externalities?. Transport Policy, 2017, 53: 120-134.*

*During the seminar: ppt on externalities – follow-up, discussion of homeworks.*

1. Public goods and common-pool resources
   * Private vs. public goods, common-pool resources (the criterion of excludability and rivalry, shortly club goods), vs. publicly provided private goods
   * Free rider problem
   * Optimal provision of public goods and common-pool resources

*Video lecture / Reading: Gruber ch. 7,11, alternatively: Stiglitz ch. 5;*

*Selected text on public goods or common-pool resources*

1. Inequality
   * Trade-off between efficiency and income equality (Okun)
   * Equality of income vs. equality of opportunity
   * Lorenz curve, Gini coefficient

*Video lecture / Reading: Stiglitz ch. 7, Gruber ch. 12,13,14,17,*

*Reading: Okun – The big trade-off*

*Reading: Stiglitz: The Price of Inequality: How Today’s Divided Society Endangers our Future*

1. Cost benefit analysis for evaluating public expenditure
   * Foundations of cost-benefit analysis (Kaldor-Hicks compensation criterion)
   * How to undertake cost-benefit analysis (CBA process, conceptual questions - non-monetised costs and benefits, social discount rate)
   * Limitations of cost-benefit analysis and distributional issues

*Video lecture / Reading: Gruber ch. 8; alternatively Stiglitz ch. 11*

*Jayasena,2022, Journal of Cleaner Production: Socio-economic and environmental cost-benefit analysis of passive houses: A life cycle perspective*

1. Taxation as a source of public finance – introduction
   * Desirable characteristics of tax systems
   * Tax incidence
   * Taxes and efficiency

*Video lecture / Reading: Gruber ch. 18, alternatively Stiglitz ch. 17, 18,19*

*Scheuer, Florian; Slemrod, Joel. Taxing our wealth. Journal of Economic Perspectives, 2021, 35.1: 207-30.*

1. Fiscal deficit and government debt
   * Share on governmental spending – what are the most significant
   * Deficit – definition measuring, size, consequences.
   * How to bring it under control
   * Debt around the globe

*Video lecture / Reading: Gruber ch. 8; alternatively Stiglitz ch. 28; Mankiw – Macroeconomics – Ch. 16*

1. Public policy in practice: Private financing of public infrastructure and social housing by increasing property values
   * Land values
   * The logic behind private financing of public infrastructure

Homework: Reading: VEJCHODSKÁ, Eliška, et al. Bridging land value capture with land rent narratives. *Land Use Policy*, 2022, 114: 105956.

1. Public policy in practice: Environmental protection
   * Economics of climate change – efficiency questions, European trading scheme, competitiveness in international perspective

*Video lecture / Reading: Hanley et al.: Introduction to environmental economics, ch. 12;*

*Listening: Nobel laureate William Nordhaus: The economics of climate change*

<https://www.youtube.com/watch?v=5DG5i8BGaXo&t=2062s>

*Reading: Chapter 12.8-12.10 from the book Economics, Society and Public Policy + (how does the duty to the imports to the European Union (carbon border adjustment mechanism) relate to economic, administrative and political feasibility concepts?*

1. Closing lecture: What have I learnt, three things which were most fascinating for me, how does the course relate to my interests in study

## Compulsory literature

Only selected chapters covered by the lectures are compulsory literature sources:

Gruber, Jonathan. *Public Finance and Public Policy*. Worth Publishers, 3rd edition, 2011.

Banerjee, Abhijit V. and Duflo, Esther. Good Economics for Hard Times, 2019, Penguin Books.

Economics, Society and Public Policy: <https://www.core-econ.org/espp/book/text/0-3-contents.html>

## Additional literature:

Crook, Tony, John Henneberry, and Christine Whitehead. *Planning gain: Providing infrastructure and affordable housing*. John Wiley & Sons, 2015.

Hanley, Nick, Jason Shogren, and Ben White. *Introduction to environmental economics*. Oxford University Press, 2019.

Okun, Arthur M. *Equality and efficiency: The big tradeoff*. Brookings Institution Press, 2015.

Stiglitz, Joseph E. Public Sector Economics. Third Edition. W.W Norton & Company, New York. 2000.

# Appendix – the list of books for the voluntary activity

* **Richard Thaler and Cass Sunstein**: **Nudge**: A revelatory look at how we make decisions
* **Daniel Kahnemann: Thinking fast and slow**: shows you how two systems in your brain are constantly fighting over control of your behavior and actions, and teaches you the many ways in which this leads to errors in memory, judgment and decisions, and what you can do about it.
* **Paul Krugman: The Conscience of a Liberal**. In this book, as in his other publications aimed at the general public, the author once again demonstrates a rare ability to present often difficult issues clearly and unambiguously. He reflects on the last eighty years of American history in the context of economic and social inequality in society.
* **Juliette Schor: The Overworked American: The Unexpected Decline Of Leisure**; *This pathbreaking book explains why, contrary to all expectations, Americans are working harder than ever. Juliet Schor presents the astonishing news that over the past twenty years our working hours have increased by the equivalent of one month per year -- a dramatic spurt that has hit everybody: men and women, professionals as well as low-paid workers. Why are we -- unlike every other industrialized Western nation -- repeatedly "choosing" money over time? And what can we do to get off the treadmill?*
* **Juliette Schor: Born to Buy: The Commercialized Child and the New Consumer Cult**. *Ads aimed at kids are virtually everywhere -- in classrooms and textbooks, on the Internet, even at slumber parties and the playground. Product placement and other innovations have introduced more subtle advertising to movies and television. Companies are enlisting children as guerrilla marketers, targeting their friends and families. Even trusted social institutions such as the Girl Scouts are teaming up with marketers. Drawing on her own survey research and unprecedented access to the advertising industry, New York Timesbestselling author and leading cultural and economic authority Juliet Schor examines how a marketing effort of vast size, scope, and effectiveness has created "commercialized children."*
* **Jean Tirole: Economics for the common good.** *To show how economics can help us realize the common good, Tirole shares his insights on a broad array of questions affecting our everyday lives and the future of our society, including global warming, unemployment, the post-2008 global financial order, the euro crisis, the digital revolution, innovation, and the proper balance between the free market and regulation; chvála společnosti odměňující podle zásluh*
* **Michael Sandel: The Tyranny of Merit: What's Become of the Common Good?**

*The world-renowned philosopher and author of the bestselling Justice explores the central question of our time: What has become of the common good? These are dangerous times for democracy. We live in an age of winners and losers, where the odds are stacked in favor of the already fortunate. Stalled social mobility and entrenched inequality give the lie to the American credo that "you can make it if you try". The consequence is a brew of anger and frustration that has fueled populist protest and extreme polarization, and led to deep distrust of both government and our fellow citizens--leaving us morally unprepared to face the profound challenges of our time.*

* **James J. Heckman. Giving Kids a Fair Chance**. *Heckman argues that the accident of birth is the greatest source of inequality in America today. Children born into disadvantage are, by the time they start kindergarten, already at risk of dropping out of school, teen pregnancy, crime, and a lifetime of low-wage work. This is bad for all those born into disadvantage and bad for American society.*
* **Alvin Roth: Who gets what - and why : the new economics of matchmaking and market design***: Alvin E. Roth is one of the world's leading experts on matching markets. He has even designed several of them, including the exchange that places medical students in residencies and the system that increases the number of kidney transplants by better matching donors to patients. In Who Gets What -- And Why, Roth reveals the matching markets hidden around us and shows how to recognize a good match and make smarter, more confident decisions*.