



Course Outline

EE441: Economics of Public Expenditure

Semester 1/2022 (August 8 - November 26, 2022)

Number of Credit: 3 (3-0-6)

Prerequisite: EE212 (or EE/EC214) and EE311

Course Description:

The role of government in economic activities; Government Outlay; Welfare Economics; Theory of Public Goods, Theory of Externalities, Public Choice, Public Pricing and Policies, fiscal decentralization; The analysis of the effects of government spending on the macroeconomic goals, such as price stability, economic growth, distribution of income, and employment conditions, as well as the effects of government spending on important economic sectors.

Class time and Logistic

Class day: Tuesdays and Thursdays

Class time: 11.00 AM – 12.30 PM

Teaching Materials Platform: [BE Moodle / Google Classroom]

Instructor:

Name: Asst. Prof. Phongthorn Wrasai, Ph.D.

Office Hours: by appointment

E-mail: pwrasai@econ.tu.ac.th , pwrasai@gmail.com

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Academic Integrity:

You are expected to be honest in all of your academic work. Copying is plagiarism and will be treated as an honor code violation. Potential sanctions include failure in the course and suspension from the university.

Tentative Grading Criteria:

- **Homework and pop quizzes** **10%**
(Late homework submission will receive 50% of earned points)
- **Mid-term examination** **30%**
- **Short Essays | Mini Research** **20%**
- **Group Presentation** **10%**
- **Final examination** **30%**

Important Dates

Class begins	8 August 2022
Add-Drop period	8 – 21 August 2022
Midterm Exam period (no classes)	25 Sep - 2 Oct 2022
Mid-term Exam	Tuesday, September 27, 2022; noon – 2.00 PM
Final Exam	Saturday, December 3, 2022; 1.30 – 4.30 PM
Last day for course withdrawal	16 October 2022
Last class	26 November 2022

Main References:

Rosen, Harvey S., and Ted Gayer (2014), **Public Finance**, 10th edition, McGraw-Hill.
Stiglitz, Joseph E. and Jay K. Rosengard (2015) **Economics of the Public Sector**. 4th ed. W.W. Norton & Company, New York.

Other Recommended References:

Atkinson, A., and J. Stiglitz., **Lectures on Public Economics**, New York, NY: McGraw Hill, 1980. ISBN: 0070841055.

Auerbach, A and M. Feldstein, **Handbook of Public Economics**, Vols. 1, 2 and 3. Amsterdam, Holland, New York, NY: North-Holland; New York, NY: Elsevier, 1985, 1987, 2003. ISBNs: 044487612X, 0444879080, 044482314X.

Buchanan, James M. and Richard A. Musgrave, **Public Finance and Public Choice: Two Contrasting Visions of the State**, MIT Press, 1999.

Connolly, Sarah and Alistair Munro, **Economics of the Public Sector**, Prentice Hall, London, 1999.

- Grubber, Jonathan. **Public Finance and Public Policy**. 5th ed. New York: Worth Publishers, 2015.
- Hillman, Arye L., **Public Finance and Public Policy, Responsibilities and Limitations of Government**, Cambridge: Cambridge University Press, 2003.
- Hindriks, Jean and Gareth D. Myles. **Intermediate Public Economics**. MIT Press, 2006. ISBN: 0262083442 (HB846.5 .H55)
- Hyman, David N., **Public Finance: a Contemporary Application of Theory to Policy**. 12th ed. Thomson/South-Western, 20
- Laffont, J., **Fundamentals of Public Economics**, Cambridge, MA: MIT Press, 1988. ISBN: 0262121271.
- McLean, Iain., **Public Choice: An Introduction**, Oxford: Basil Blackwell.
- Mueller, Dennis, **Public Choice II/III**, Cambridge University Press, 1989, 2003.
- Musgrave, R.A. and P.B. Musgrave, **Public Finance in Theory and Practice**, 5th edition, McGraw-Hill, 1989. (HJ257.2 .M8 1989)
- Myles, G., **Public Economics**, New York, NY: Cambridge University Press, 1995. ISBN: 0521497698.
- Persson, Torsten and Guido Tabellini, **Political Economics: Explaining Economic Policy**. MIT Press, 2000. ISBN: 0262161958. (HD87 .P468)
- Shepsle, Kenneth and Mark Boncheck. **Analyzing Politics: Rationality, Behavior and Institutions**, New York: Norton, 1997.

Course Outline:

PART I GETTING STARTED: INTRODUCTION AND BACKGROUND

- Why Study Public Economics?
- What or Who is the Government?
- The Economic Role of Government: What should the role of government be? How much government intervention is desirable in a market-based economy?
- Thinking Like a Public Sector Economist
- Disagreements among Economists: Value judgments are inescapable.

Reading:

Feldstein, Martin (2001) The Transformation of Public Economics Research: 1970- 2000. NBER website. (URL: <http://www.nber.org/feldstein/publicconomics.html>)

Atkinson, Anthony B. 2012. "The Mirrlees Review and the State of Public Economics." *Journal of Economic Literature*, 50(3): 770-80.

Rosen, Ch. 1

Stiglitz, Ch. 1

PART II FUNDAMENTALS OF WELFARE ECONOMICS

- Market Efficiency
 - Equilibrium in Competitive Market
 - Pareto Efficiency (Pareto Optimality)
 - The Fundamental Theorems of Welfare Economics
 - The First Theorem of Welfare Economics (FTWE)
 - The Second Theorem of Welfare Economics (STWE)
 - Analysing Economic Efficiency
- Efficiency and Equity

Reading:

Stiglitz, Chs. 3-5

PART III DEPARTURES FROM EFFICIENCY: EXTERNALITIES AND PUBLIC GOODS

- Externalities
 - The Nature of Externalities
 - Externality Examples
 - River Pollution
 - Traffic Jams
 - Pecuniary Externality
 - The Rat Race Problem
 - The Tragedy of the Commons
 - Bandwagon Effect
 - Private-Sector Solutions to Externalities
 - Internalization
 - The Coase Theorem, Property Rights, and Bargaining
 - Public Sector Remedies for Externalities
 - Pigouvian Taxes (a.k.a corrective taxes)
 - Emission Fee
 - Emissions Standard
 - Tradeable Emissions Permits
 - Subsidies for Positive Externalities

Reading

Stiglitz, Ch. 9

Rosen, Ch. 5

Adam Davidson. 2012. "[Should We Tax People for Being Annoying](#)" New York Times. January 8,

["Climate change and inequality"](#) The Economist July 13, 2017

Coase, Ronald H. "The Problem of Social Cost." *Journal of Law and Economics* 3 (1960): 1-44.

Oreopoulos, Philip, "The Long-Run Consequences of Living in a Poor

Neighborhood,” Quarterly Journal of Economics, 118(4), Nov. 2003.

Dickert-Conlin, Stacy, Todd Elder and Brian Moore. Forthcoming “Donorcycles: Motorcycle Helmet Laws and the Supply of Organ Donors”, Journal of Law and Economics, 2011, vol. 54, issue 4, pages 907 –935.

Watching

The Global Philosopher (BBC)- [Who should pay for climate change?](#)

- **Public Goods**
 - Public Goods Defined
 - When to Provide a Public Good
 - Optimal Provision of Public Goods
 - Private Provision of Public Goods
 - Public Provision of Public Goods
 - The Free Rider Problem
 - Lindahl Equilibrium
- **Local Public Goods**
- **The Tiebout Hypothesis: Vote with Their Feet**

Reading:

Stiglitz, Ch. 6

Rosen, Ch. 4

Paul Samuelson, “The pure theory of public expenditures,” Review of Economics and Statistics, 1954, 387-389.

Lindahl, E., “Just Taxation - A Positive Solution,” in Musgrave and Peacock, eds., Classics in the Theory of Public Finance, Macmillian, 1958, 168-76

Hardin, G. (1968), “The Tragedy of the Commons,” Science 162:1243-48. (Downloadable at: <http://www.physics.ohio-state.edu/~wilkins/sciandsoc/tragedy.pdf>)

Charles Tiebout, “A pure theory of local expenditure,” Journal of Political Economy, 1956, 416-424.

PART IV PUBLIC CHOICE AND POLITICAL ECONOMICS (NEW POLITICAL ECONOMY)

- **Public Mechanisms for Allocating Resources**
 - The Problem of Preference Revelation
 - Individual Preference for Public Goods
 - The Problem of Aggregate Preferences
 - Majority Voting and the Paradox of Voting
 - Arrow’s Impossibility Theorem
 - Single-Peaked Preferences and the Existence of a Majority Voting Equilibrium

- The Median Voter Model
- The Inefficiency of the Majority Voting Equilibrium
- Social Choice Theory

Reading:

Stiglitz, Ch. 7

Rosen, Ch. 7

Persson and Tabellini, p. 1-14

Torsten Persson and Guido Tabellini. Political Economics and Public Finance. Handbook of Public Economics. Available as NBER Working paper 7097

Besley, Timothy. **The New Political Economy**. A paper based on Keynes Lecture in Economics, delivered at the British Academy, 2004.

Wrasai, P. and Otto H. Swank. Policy Maker, Advisors, and Reputation. *Journal of Economic Behaviour and Organization*, 62, 579-590, 2007.

Wrasai, P. Politicians' Motivation, Role of Elections, and Policy Choices. *Tinbergen Institute Discussion Paper*, 2005.

PART V ISSUES IN PUBLIC EXPENDITURE

- **Government and Health Care**
- **Government and Education**
- **Defense Expenditures**
- **Income Redistribution: Conceptual Issues**
- **Expenditure Programs for the Poor**

Reading:

Rosen, Chs. 9-13

Stiglitz, Chs. 10-16

Earth 2.0: Is Income Inequality Inevitable? Listen to the podcast:
<http://freakonomics.com/podcast/earth-2-0-income-inequality/>

Freakonomics radio, April 19, 2017

Assigned Journal Articles (TBA)