



B.E. International Program

Faculty of Economics, Thammasat University



TQF3 COURSE SPECIFICATION

Course Title	EE 441 Economics of Public Expenditure (Curriculum 2552) EE 441 Economics of Public Expenditure (Curriculum 2556)
Semester:	1/2015 (August – December 2015)
Instructor:	Phongthorn Wrasai, Ph.D.
Office:	Room 471, 4 th Floor, Faculty of Economics
Office Hours:	Tuesdays and Thursdays, 13.30-14.30 or by appointment
E-mail:	pwrasai@gmail.com
Lecture Time:	Tuesdays & Thursdays, 11:00-12:30
Lecture Venue:	Room 302, 3 rd Floor, Faculty of Economics, Tha Prachan Campus

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.

Number of class hours per semester:

Lecture	Practicum/field work/internship	Self study
45 hours/semester	None	90 hours/semester

Main References:

Rosen, Harvey S., and Ted Gayer (2014), *Public Finance*, 10th edition, Berkshire, U.K.: McGraw-Hill Education. OR *Public Finance*, 9th edition, OR *Public Finance*, 2008, 8th edition, OR single-authored Rosen's *Public Finance*, 2005, 7th edition

Stiglitz, Joseph E. *Economics of the Public Sector*. 3rd ed. W.W. Norton&Company, New York, 2000. ISBN: 0393966518. (HJ257.2 .S73)

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*. 4th ed. New York: Worth Publishers, 2013.
URL: <http://bcs.worthpublishers.com/gruber4e/>

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*. 9th ed. Thomson/South-Western, 2008.

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?
- The Economic Role of Government
- What or Who is the Government?
- Thinking Like a Public Sector Economist
- Disagreements among Economists

Reading:

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

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.

- **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)
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- **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
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- **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

Assigned Journal Articles (TBA)

Evaluation:

Homework Assignments	10%
Referee Report	10%
Short Paper	20%
Mid-term Examination	30%
Final Examination	30%

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.

Important Dates:

Class Begins	August 17, 2015
Adding and Dropping Course	August 17-31, 2015
Midterm Exam Period	October 5-10, 2015 (No Lectures)
Midterm Exam	Tuesday, October 6, 2015; 11.00-12.30
Course Withdrawal with "W"	October 21-26, 2015
Last Day of Classes	December 6, 2015
Final Exam	Monday, December 14, 2015; 9.00-12.00