



## Bachelor's courses School of Business and Economics

VU University Amsterdam - Student- & Onderwijszaken - Exchange programme Vrije Universiteit - 2018-2019



# Public Economics

<b>Course code</b>	E_EBE2_PE ()
<b>Period</b>	Period 4
<b>Credits</b>	6.0
<b>Language of tuition</b>	English
<b>Faculty</b>	School of Business and Economics
<b>Coordinator</b>	dr. S. Hochguertel
<b>Examinator</b>	dr. S. Hochguertel
<b>Teaching staff</b>	dr. S. Hochguertel
<b>Teaching method(s)</b>	Lecture, Seminar
<b>Level</b>	300

## Course objective

The objective of this course is to identify, justify, analyze and evaluate public economic policy options (Bridging Theory and Practice - Knowledge and Application). Using problem sets and exercises, along with work on economic data will increase and deepen understanding.

Upon completion of the course:

- (i) Students understand theoretical underpinnings, mechanisms, and functioning of policy tools in public economics, and they appreciate empirical dimensions of government involvement and policy (Bridging Theory and Practice - Knowledge).
- (ii) Students possess the relevant skills and master the choice and use of appropriate empirical and modeling tools to address important public economics questions in stylized and real-life cases and applications (Academic and Research Skills).
- (iii) Students are able to positively assess and normatively evaluate efficacy, effectiveness, equity, and efficiency of alternative economic policy measures in light of set objectives and relative to desirable social goals (Bridging Theory and Practice - Application).

## Course content

Public economics (public finance) is concerned with the role of the public sector (and in particular the government) in a market economy. This course covers an array of topics central to economic policy making, and will discuss underlying economic theory, but also embed it in the context of empirical research on policy evaluation that has given new impetus to public economic thinking.

Classic topics include the correction of market failure in the presence of public goods (judicial system or national defence), as well as distributional goals with which welfare state institutions are concerned. We discuss welfare implications of taxation of incomes, consumption, or wealth, implied by adverse incentive effects on economic behavior. The central trade-off in public finance is that between the dual goals of efficiency and equity, and we argue that government policy is at most second-best relative to the goal overall maximization of social welfare. The course will also reflect on behavioral public finance aspects that point to limitations and challenges for economic policy making when citizens are boundedly rational and may not react as desired to public interventions. There may be a role for the government as choice architect.

Problems triggered by asymmetric information constitute another central aspect of modern public finance, and accordingly tools will be applied to issues in social insurance design. In addition, the course will discuss issues of public choice and political economy when discussing strategic lobbying and rent-seeking, or institutional structures that reflect the provision of local and interjurisdictional public goods (fiscal federalism). We close with aspects of international taxation (tax avoidance, evasion, and tax competition).

During the course both theoretical and empirical economic work in policy context is discussed.

#### **Form of tuition**

Lectures (including guest lecture(s)).

Tutorials.

#### **Type of assessment**

25% tutorial assignments and problem sets - group assessment; 75 % written exam - individual assessment, Stipulations apply (see course manual).

#### **Course reading**

Rosen, H.S., and T. Gayer (2014), Public Finance, 10th Edition, McGraw-Hill (ISBN: 0078021685)

Supplementary material from

Hindriks, J. and G. D. Myles (2013), Intermediate Public Economics, 2nd edition, MIT Press.

Additional reading will be announced on canvas.

#### **Entry requirements**

Microeconomics I, Quantitative Research Methods I.

#### **Recommended background knowledge**

Macroeconomics I and II. Students benefit strongly from participating in the parallel course Microeconomics II.

#### **Target group**

Students BSc Economics and Business Economics (Economics track)

#### **Remarks**

The course has important intersections with an array of economics courses in, for instance, microeconomics, development economics, regional and urban economics, and industrial organization.