



ECON/PUBL 411

Public Economics B

1/3 2005

School of Economics and Finance

Lecturers:

Paul Calcott	RH 324	463-6585	paul.calcott@vuw.ac.nz
Jackie Cumming	RH 410	463-6567	jackie.cumming@vuw.ac.nz
Suzi Kerr	TBA	939 4250	suzi.kerr@motu.org.nz

Timetable: RH G02 Thur 3:40-5:30

A high level of mathematical training is not required. But you should not consider it to be an introductory course. We will assume that you understand basic concepts of introductory game theory and public economics. Some introductory reading is suggested below, for those who require some revision.

Topics

Co-operation (Suzi)

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| 1. Institutions for economic cooperation I | 24 Feb |
| 2. Institutions for economic cooperation II | 3 Mar |
| 3. Humans and cooperation: building social norms | 10 March |

Social regulation (Paul)

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| 4. The goals of regulation I: efficiency and CBA | 17 March |
| 5. The goals of regulation II: politics and precaution | 24 March |
| 6. Neo-paternalism | 14 April |
| 7. Offsetting behaviour | 21 April |
| 8. Commands vs incentives I: uncertainty and heterogeneity | 28 April |
| 9. Commands vs incentives II: monitoring and correlation | 5 May |

Health (Jackie)

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| 10. Market failures and the role of government in health care | 12 May |
| 11. Rationing and priority setting | 19 May |
| 12. Organising the health care system | 26 May |

Assessment:

2 essays	2500 words	20% each	28 April & 2 June
2 hour final Exam	30 May - 18 June	60%	

Late assignments will attract a penalty of 5% a day.

Silent non-programmable calculators will be allowed, but not useful, in the exam.

Reading: A book of readings is available from the student notes shop for \$34.50. Some supplementary reading is suggested below, and others will be made available via Blackboard.

Copies of **announcements**, assignment questions, tutorial questions and other course information will be posted on Blackboard.

Essays

- The word length for the essays is 2500 WORDS (excluding references).
- Penalties (of 10% for each essay) will be invoked for discernible breaches of the essay limit, or for lateness with the essay (without prior permission).

Essay 1: Regulation

Due Thursday 28 April

Take one government agency concerned with social regulation. Briefly describe the role of the agency. To what extent can and should intervention by such an agency be evaluated with cost-benefit analysis?.

Essay 2: health

Due Thursday 2 June

The New Zealand government funds health care through central government taxation, and it also provides health care directly through a network of government-owned district health boards, which are charged with ensuring the delivery of health care services in their districts. Using theories of market failure and government failure, identify the key strengths and weaknesses of these New Zealand arrangements in relation to the goals of allocative and technical efficiency, and equity of access.

Knowledge that will be assumed

This is not a course in advanced theory. But we cannot afford to spend time reviewing concepts from introductory economics. If you have not had any recent exposure to economics, you might like to do some background reading. In particular, we will assume that you understand basic concepts of public economics such as externalities and public goods, and have at least a basic understanding of game theory and asymmetric information. The following suggestions provide accessible introductions.

concept	Connolly & Munro	Stiglitz 2e	Begg 7e	Mankiw 2e
public goods	chap 4	chap 5	§16-2	chap 11
externalities	chap 5	chap 8	§15-5	chap 10
game theory			§9-4	chap 16
asymmetric info	chap 6	pp332-333	pp187-188	p599

David Begg, *Economics*, 7th ed., McGraw-Hill, 2003.

Sara Connolly & Alistair Munro, *Economics of the Public Sector*, Prentice Hall, 1999.

N. Gregory Mankiw, *Principles of Economics*, 2nd ed., Harcourt, 2001.

Joseph E. Stiglitz, *Economics of the Public Sector*, 2nd ed., Norton, 1988.

Reading

1. & 2. *Institutions for economic cooperation* 24 Feb & 3 March
Handbook: Coase, R. The Problem of Social Cost, *Journal of Law and Economics* 1960 pp:1-44
Ostrom, Elinor (1990) *Governing the Commons: The Evolution of Institutions for Collective Action* (C.U.P.) Chap. 3
Seabright, Paul (1993) Managing Local Commons: Theoretical Issues in Incentive Design, *Journal of Economics Perspectives* 7(4) Fall, pp. 113-134 (not compulsory for students with non-econ backgrounds)
Other: North, Douglass C. (1990) *Institutions, Institutional Change and Economic Performance*, C.U.P., UK. Chaps 2, 4 & 7.
3. *Humans and co-operation: building social norms* 10 March
Handbook: Ostrom, Elinor (2000) Collective Action and the Evolution of Social Norms *Journal of Economic Perspectives* 14(3) 137-158
Other: Frank, Robert H. (1988) *Passion Within Reason: The Strategic Role of the Emotions* (W.W. Norton, New York, New York) pp 1-7, 29-35
One of: (each student will read one and contribute to discussion)
Axelrod, Robert (1986) An Evolutionary Approach to Norms *The American Political Science Review* 80(4) 1095-1111
North, Douglass C. (1990) *Institutions, Institutional Change and Economic Performance* C.U.P., Cambridge, United Kingdom. Chaps 5 & 8
Greif, Avner (1993) Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Trader's Coalition *American Economic Review* 83 (3) 525-548 [ignore technical parts]
Ostrom, Elinor (1990) *Governing the Commons: The Evolution of Institutions for Collective Action* (C.U.P.) Chaps 4, 5 & 6 pp. 103-214
4. & 5. *Efficiency and CBA* 17 & 24 March
Handbook: Matthew Adler and Eric Posner (1999) Rethinking cost-benefit analysis, *Yale Law Journal* 109(2).
Cass Sunstein (2000) Cognition and cost-benefit analysis, *Journal of Legal Studies* 29(2):1059-1104
Other: J Dreze, 'Distribution matters in cost-benefit analysis', *Journal of Public Economics*, 1998, 70, 485-488
J Gowdy, The revolution in welfare economics and its implications for environmental valuation and policy, 2003, WP 0315, Rensselaer Polytechnic Institute.
P Hammond, 'The economics of justice and the criterion of wealth maximisation', *Yale Law Journal*, 1982, 91:1492-1507
R Posner, 'Wealth maximisation revisited', *Journal of Law, Ethics and Public Policy*, 1985, 2, 85-105, reprinted in Posner & Parisi (eds) *Law and economics*.
- 14 *Neopaternalism* 14 & 21 April
Handbook: Colin Camerer *et al* (2003) Regulation for conservatives: behavioral economics and the case for asymmetric paternalism *University of Pennsylvania Law Review* 151:1238-47
Other: C Sunstein and R. Thaler, (2003) Libertarian paternalism is not an oxymoron, *University of Chicago Law Review* 70:1159-1202
J Gruber, Smoking's 'internalities', *Regulation*, Winter 2002-2003, 52-57.

8. & 9. *Commands vs. incentives* 28 April & 5 May
 Handbook: L Kaplow and S Shavell, 'On the superiority of corrective taxes to quantity regulation', *American Law and Economics Review*, 2002, 4:1-17.
 E Glaeser & A Shleifer, A case for quantity regulation, NBER WP 8184, 2001
 Other: J-P Montero, 'Prices versus quantities with incomplete enforcement' *Journal of Public Economics*, 2002, 85, 435-454.
 S Rose-Ackerman, 'Regulation and the law of torts', *American Economic Review*, Vol. 81, No. 2, 1991, pp. 54-58.
 Steven Shavell, (1984) 'A model of the optimal use of liability and safety regulation', *Rand Journal of Economics*, 15(2), 271-280.
 Robert Stavins, (1996) 'Correlated uncertainty and policy instrument choice', *Journal of Environmental Economics and Management*, 30:218-225.
 M Weitzman, 'Prices vs. Quantities', *Review of Economic Studies*, 1974, 41(4), 477-491
10. *Market failures and the role of government in health care* 12 May
 Handbook: N Barr, *The Economics of the Welfare State*, 1998, Ch. 12
 Other: A McGuire, P. Fenn, *et al*, 'The assessment: the economics of health care', *Oxford Review of Economic Policy*, 1989, 5(1): 1-20
 C Scott, *Public and Private Roles in Health Systems: Reform Experience in Seven OECD Countries*, 2001, Buckingham, O.U.P. Ch 2
11. *Rationing & priority setting* 19 May
 Handbook: G Mooney, *Key Issues in Health Economics*, 1994, Wheatsheaf. Ch 3.
 Other: Prioritisation Team, Health Funding Authority, How shall we prioritise health and disability services? A discussion paper. Revised Draft, 1998
 J Bethwaite & S McCaw, Overview of the Health Funding Authority's Prioritisation Decision Making Framework, 2000, HFA
 T Ashton, J Cumming & N Devlin, 'Priority-setting in New Zealand: translating principles into practice', *Journal of Health Services Research and Policy*, 2000, 5(3): 170-175.
 C Ham & F Honigsbaum, 'Priority setting and rationing health services', In R B Saltman, J Figueras & C Sakellarides, *Critical Challenges for Health Care Reform in Europe*, 1998, Buckingham, O.U.P. 113-134.
12. *Organising the health care system* 26 May
 Handbook: J Cumming and N Mays, 'Reform and counter reform: how sustainable is New Zealand's latest health system restructuring?', *Journal of Health Services Research and Policy*, 2002, 7:46-55
 Other: N Mays and K Hand, A Review of Options for Health and Disability Support Purchasing in New Zealand, Wellington, Treasury paper, 2000
 J Hurley, S Birch, *et al*, 'Geographically-decentralized planning and management issues in health care: some informational issues and their implications for efficiency', *Social Science and Medicine*, 1995, 41(1): 3-11.
 J Cumming and the Health Reforms 2001 Research Team (2003) Interim Report on Health Reforms 2001 Research Project. HSRC.

The fine print

General University policies and statutes

Students should familiarise themselves with the University's policies and statutes, particularly those regarding assessment and course of study requirements, and formal academic grievance procedures.

Student Conduct and Staff Conduct

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps can be taken if there is a complaint. For queries about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor. This Statute is available in the Faculty Student Administration Office or on the website at: <http://www.vuw.ac.nz/policy/StudentConduct>.

The policy on Staff Conduct can be found on the VUW website at: <http://www.vuw.ac.nz/policy/StaffConduct>.

Academic Grievances

If you have any academic problems with your course you should talk to the tutor or lecturer concerned or, if you are not satisfied with the result of that meeting, see the Head of School or the Associate Dean (Students) of your Faculty. Class representatives are available to assist you with this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website: <http://www.vuw.ac.nz/policy/AcademicGrievances>.

Academic integrity and plagiarism

Academic integrity is about honesty - put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. Plagiarism is **prohibited** at Victoria.

The University defines plagiarism as follows: Plagiarism is presenting someone else's work as if it were your own, whether you mean to or not.

'Someone else's work' means anything that is not your own idea, even if it is presented in your own style. It includes material from books, journals or any other printed source, the work of other students or staff, information from the Internet, software programmes and other electronic material, designs and ideas. It also includes the organization or structuring of any such material.

Plagiarism is not worth the risk.

Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct (www.vuw.ac.nz/policy/studentconduct) and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- suspension from class or university
- cancellation of your mark for an assessment or a fail grade for the course

Find out more about plagiarism and how to avoid it, on the University's website at: www.vuw.ac.nz/home/studying/plagiarism.html.

Students with Disabilities

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities an equal opportunity with all other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent

or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, then please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services to confidentially discuss your individual needs and the options and support that are available. Disability Support Services are located on Level 1, Robert Stout Building, or phoning 463-6070, email: disability@vuw.ac.nz. The name of your School's Disability Liaison Person can be obtained from the Administrative Assistant or the School Prospectus.

Student Support

Staff at Victoria want students' learning experiences at the University to be positive. If your academic progress is causing you concern, please contact the relevant Course Co-ordinator, or Associate Dean who will either help you directly or put you in contact with someone who can.

The Student Services Group is also available to provide a variety of support and services. Find out more at http://www.vuw.ac.nz/st_services/ or email student-services@vuw.ac.nz.

VUWSA employs two Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and faculty delegates. The Education Office is located on the ground floor, Student Union Building, phone 463 6983 or 463 6984, email education@vuwsa.org.nz.