

School of Government and School of Economics and Finance

PUBL 303/ECON 307
PUBLIC SECTOR ECONOMICS

Trimester Two 2006

COURSE OUTLINE

Contact Details

Course Co-ordinators: Associate Professor Bob Stephens
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Note: Please ensure that e-mails use ECON 307 or PUBL 303 as the first words in the Subject Line, otherwise they risk being deleted as SPAM.

Class Times and Room Numbers

Lecture Timetable: Tuesday 8.30am – 10.20am in Railway (RWW) 501
Thursday 8.30am – 9.20am in RWW 501

Tutorial: either Thursday 9.30am – 10.20am RWW 501
OR Thursday 11.30am – 12.20pm Room tbc

Final Examination: October/November.

Course Objectives

The major aim of the course is for students to understand the various economic approaches to public economics, especially the economic rationale for the degree of government involvement in the modern economy. The emphasis will be microeconomic involvement,

although it is recognised that each microeconomic policy has a macroeconomic impact. The course will provide the positive rationale for government involvement in a modern, developed economy, investigating the form of that involvement as well as the appropriate economic instruments. The course will also investigate the public choice critique of government provision and financing of economic policy.

The theory that is analysed in the course should enable students to evaluate continuing reforms of the state sector in New Zealand, and the changes in form, level and mode of operation of government involvement in the economy since 1984, including the post-1999 approach of social investment, with integrated and coordinated policy focussing on public sector outputs and outcomes. Case studies on taxation, natural resources management, social security, and education will permit these issues to be considered in depth.

Learning Objectives

Students passing this 300 level course in Public Sector Economics should be able to:

1. Understand the important schools of thought within public economics and the economics of politics.
2. Explain and evaluate the current level, form and methods of government involvement in the New Zealand economy.
3. Discuss the theoretical reasons for that involvement, and the appropriate design for economic instruments to achieve the objectives of involvement.
4. Evaluate the changes in theory that have resulted in public sector reform in New Zealand and overseas.
5. Discuss the extent to which there is a trade-off between equity and efficiency, and the degree of complementarity between efficiency and equity.
6. Use the concepts of efficiency and equity in the development of policies for the public sector.
7. Recognise the strengths and limitations of schools of thought and economic theory for analysing policies in the public sector.
8. Use economic techniques to analyse policies in the public sector.
9. Recognised the importance of ideological viewpoints as well as economic theory in determining the appropriate policy prescription.

Essay 1a) concentrates on Learning Objectives 1-4 and 7-9.

Essay 1b) concentrates on Learning Objectives 2-6.

Essay 2 relates to all Learning Objectives except 4 and 5.

Course Content

Public economics provides an examination of the schools of thought on the economics of collective decision making and the public framework around private decisions. The course will begin with an exploration of the neoclassical paradigm and welfare economics and will explore other schools of thought such as social choice, public choice, transactions cost and property rights approaches, institutionalism and ecological economics. It will assess theories

of the role, mode and financing of the public sector in a modern mixed economy. Institutions and incentives are key issues. The perspective is primarily microeconomic, focusing on the scope, form, level and method of government involvement in the economy, with some discussion of national aggregates and indicators, as well as the appropriate methods of raising the necessary revenue to finance public expenditure.

Problems of collective choice and the frameworks for private choices are considered, along with an economic evaluation of the operation of government, including the incentives for various players including ministers and bureaucrats to achieve their objectives. A comparison of alternative economic instruments to achieve objectives will be undertaken. The structuring of government, its agencies, agency governance rules and methods to ensure that pursuit of objectives to achieve various perceptions of the public interest, will be discussed. Attention is given to the effect of expenditure and financing decisions on well-being, resource allocation, income distribution, as well as environmental and natural resource management.

These topics will be addressed from both a theoretical and applied perspective. The issues will be related to those currently relevant to the New Zealand public sector, although the experience of other countries will also be drawn upon. In 2006, attention will be given to investigating the theoretical reasons behind the changes in the method and organisation of the public sector in New Zealand, the economic analysis of taxation, including the reform of the tax system, recent changes in social security policy, the economics of education, and environmental and natural resource economics and policy issues.

Lecture Topics and Lectures

A. The Economics of the Public Sector

Associate Professor Bob Stephens

July 11, 13, 18 & 20

6 Lecture Hours, 2 Tutorials

The changing role, functions, financing and nature of the state in New Zealand. Neoclassical foundations and approaches to welfare economics. Collective and private choices. Microeconomic efficiency conditions, Pareto efficiency and optimality; market failure and the positive theory of the state – public goods, externalities, uncertainty, imperfect & asymmetric information. Cost-benefit analysis. Alternative economic frameworks and the public sector. Equity and efficiency, distributive justice, merit goods.

Reading: Connolly Sara & Alistair Munro (1999) *Economics of the Public Sector*, prentice Hall Europe, Chapters 1-7

Course Notes: Book 1

Barr, N. (1998) "Political Theory: Social Justice and the State". Ch. 2 of *The Economics of the Welfare State*, London, Weidenfeld and Nicholson, 3rd ed. Course Notes pp. 1-14.

Bailey, S. (1995) "The Economic Rationale for Government". Ch. 2 of *Public Sector Economics: Theory, Policy and Practice*, London, MacMillan. Course Notes pp. 15-27.

Grout, P. and Stevens, M. (2003) "The assessment: Financing and managing public services", *Oxford Review of Economic Policy*, 19(2). Course Notes pp. 276-295.

Layard, R. and Glaister, S. (1994) "Introduction" in R. Layard and S. Glaister (eds.) *Cost-Benefit analysis*, CUP. Course Notes pp. 296-324.

- Stiglitz, J. (1989) "On the Economic role of the State" in A. Heertje *The Economic Role of the State*, Blackwell. Course Notes pp. 232-268.
- Stephens, R. (1985) "Project evaluation when benefits are intangible and cost-effectiveness analysis", mimeo, Treasury. Course Notes pp. 269-275.
- Stephens, R. (1999) "Economic and Social Policy: the Inter-relationship Between Equity and Efficiency" in Milne, D. and Savage, J. *Reporting Economics*, Wellington, NZ Journalists Training Organisation. Course Notes pp. 28-36.
- Bird, R. (1997) "User Charges: an Old idea Revisited" in R. Krever (ed) *Tax Conversations*, Kluwer Law International. Course Notes pp. 37-54.
- Wilkinson, M. (1994) "Paying for public spending: is there a role for earmarked taxes" *Fiscal Studies*, 15(4) Nov. Course Notes pp. 55-71.
- Also: Barr, N (1998) Ch. 4 and 5 of *The Economics of the Welfare State*, London, Weidenfeld and Nicholson, 3rd ed.

B. The Economics of Politics

Associate Professor Bob Stephens

July 25 & 27

3 Lecture hours, 1 Tutorial

Social and public choice; demand and supply side problems with government and collective choice mechanisms. Theories of the state: social choice theory (Arrow); demand for publicly provided goods – voter-consumers and vote maximising politicians; supply of publicly provided goods and services and government failures. Niskanen and the budget maximizing bureau. The new institutional economics, agency theory, transaction costs analysis, Williamson's theory of organisations, public choice theory.

Reading: Connolly Sara & Alistair Munro (1999) *Economics of the Public Sector* – Ch 8 & 9

Course Notes: Book 1

Le Grand, J. (1991) "The Theory of Government Failure" *British Journal of Political Science*, 21(1). Course Notes pp. 72-82.

Self, P. (1993) "Economic Interpretations of Politics". Ch. 1 of *Government by the Market? The Politics of Public Choice*, Basingstoke, MacMillan. Course Notes pp. 83-93.

Also: Brown, C. and Jackson, P. (1999) *Public Sector Economics* (4th ed.) Oxford, Blackwell, Ch. 4 and 7.

C. The Economics of the Environment and Natural Resources

Ms Cath Wallace

August 1, 3, 8, 10, 15 & 17

9 Lecture hours, 3 Tutorials

The environment as natural capital, an "asset" providing divisible and indivisible services. National aggregates and indicators, consumption, supply and environmental and natural resource characteristics. Pollution and pollution control. Environmental and renewable resource management and institutions. Problems of intertemporal allocation and scarcity; market and non-market valuation of costs and benefits.

Reading: Connolly Sara & Alistair Munro (1999) *Economics of the Public Sector*, Prentice Hall Europe, Chapter 23.

Course Notes: Book 2 – various readings there-in as specified in Part C topics outline.
Plus:

Daly, Herman E & Joshua Farley (2004) *Ecological Economics; Principles and Applications*, Island Press, Washinton, ISBN 1-55963-312-3. xxvii+454p.

and/or

Tietenberg, Tom (2003) *Environmental and Natural Resource Economics*, Addison-Wesley Longman, Reading Mass., 6th Edition.

Perman, R., Ma, Y., McGilvray, J. and Common, M. (1999) ‘Concepts of Sustainability’ in *Natural Resource and Environmental Economics*, 2nd. ed. Longman, New York, pp. 51-78.

<< 21 August – 3 September – Mid Semester Break – No classes >>

D. Taxation, Theory and Reform

Associate Professor Bob Stephens

September 5, 7, 12, 14, 19 & 21

9 Lecture hours, 3 Tutorials

Objectives of social security, impact of changing perspectives on human motivation, labour supply incentive effects, benefit dependency arguments, poverty, economics of pensions with an ageing population, social investment.

Reading: Connolly Sara & Alistair Munro (1999) *Economics of the Public Sector*, Prentice Hall Europe, Chapters 14-18.

Course Notes: Book 1

Stephens, R. (1999) “Poverty, Family Finances and Social Security” in Boston, J., Dalziel, P. and St. John, S. (eds.) *Redesigning the Welfare State in New Zealand*, Auckland, Oxford University Press. Course Notes pp. 153-163.

Stephens, R. (2001) “Social Policy and Benefit Reform” *mimeo*, paper presented to an IIR Conference, October, Wellington. Course Notes pp. 164-182.

Barr, N. (2000) “The Fundamentals of Social Security”, *Social Security Journal*. Course Notes pp. 183-210.

Also: Barr, N. (1998) *the Economics of the Welfare State*, Oxford, Oxford University Press (3rd ed.), Ch. 6, 8-11.

F. Economics of Education

Associate Professor Bob Stephens

October 10 & 12

3 Lecture hours, 1 Tutorial

Social needs, human capital and workforce planning approaches to allocation of resources to education; rates of return on human capital; fees, loans and tertiary participation.

Reading: Connolly Sara & Alistair Munro (1999) *Economics of the Public Sector*, Prentice Hall Europe, Chapter 20.

Course Notes: Book 1

Stephens, R. (1996) "Human Capital Theory, Practice and Measurement", *Victoria Economic Commentaries*, Vol. 12(1), pp. 28-33. Course Notes pp. 211-216.

Maani, S. (1997) *Investing in Minds: The Economics of Higher Education in New Zealand*, Wellington, Institute of Policy Studies, Ch. 7. Course Notes pp. 217-231.

Also: Barr, N. (1998) *The Economics of the Welfare State*, Oxford University Press (3rd ed.), Ch. 13.

Readings and Textbooks

The textbook for the course is:

Connolly Sara & Alistair Munro (1999) *Economics of the Public Sector*, Prentice Hall Europe
Supplementary readings will be specified for each section.

For the section on natural resource management, see also:

Daly, Herman E & Joshua Farley (2004) *Ecological Economics: Principles and Applications*, Island press, Washington, ISBN 1-55963-312-3. xxvii+454p.

and/or

Tietenberg, tom (2003) *Environmental and Natural Resource Economics*, Addison-Wesley Longman, Reading Mass., 6th Edition.

For the section on social security and education, Barr, N. (1998) *The Economics of the Welfare State*, Oxford, Oxford University Press (3rd ed.) will be used along with other readings.

Course Notes:

There are two volumes of course notes which can be obtained from VicBooks' Pipitea campus bookshop in Rutherford House. The first relates to material from Bob Stephens (Vol 1, \$24.10), the second to be available later, will contain readings for Cath Wallace's section of the course (Vol 2, about \$20).

Expected Workload

Students are expected to undertake on average between two and three hours of self-directed study per week for each contact hour. Assuming four contact hours for a course, between eight and 12 hours per week of additional study should be undertaken for that course.

Additional Readings

Atkinson A. *ed.* (1991) Modern Public Finance, Vol I & II, Cambridge, Elgar Reference.

Atkinson, A and Stiglitz, J. (1980) Lectures on Public Economics, London, McGraw-Hill.

Auerbach, A and Feldstein, M *Eds.* (1985) Handbook of Public Economics, Vol. I – IV
Amsterdam, North-Holland.

Bailey, S (1994) Public Sector Economics, Basingstoke, MacMillan

- Barr, N (1998) The Economics of the Welfare State, London, Weidenfeld and Nicholson.
- Brown, C. V. and P. M. Jackson (1999) Public Sector Economics (4th ed), Oxford, Basil Blackwell.
- Cullis, J and Jones, P (1987) Microeconomics and the Public Economy: A Defence of the Leviathan, Oxford, Basil Blackwell.
- Cullis, J and Jones, P (1992) Public Finance and Public Choice: analytical perspectives, London, McGraw-Hill.
- Devereux, M ed (1996) The Economics of Tax Policy, Oxford, OUP.
- Ecological Economics* (Journal – use the *Science Direct* database).
- Foldvary, F. (1996) Beyond Neoclassical Economics: Heterodox Approaches to Economics Theory, Edward Elgar.
- Hare, P ed. (1998) Surveys in Public Sector Economics, Oxford, Basil Blackwell.
- Holcombe, R (1988) Public Sector Economics, Belmont, Wadsworth.
- Jackson, P. M (1993) Current Issues in Public Sector Economics, Basingstoke, MacMillan.
- Knapp, M (1994) The Economics of Social Care, Basingstoke, MacMillan.
- Milgrom, P & J Roberts (1992) Economics, Organisation and Management, Prentice Hall.
- Miller, Gary J (1997) The Impact of Economics on Contemporary Political Science, Journal of Economic Literature, vol XXXV (Sept 1997) pp 1173-1204).
- Millward, R, Parker, D, Rosenthal, L, Sumner, M, and Topham, N (1983) Public Sector Economics, London, Longman.
- Musgrave, R A and Musgrave P B (1989) Public Finance in Theory and Practice (5th ed), New York, McGraw Hill.
- Mueller, D (1989) Public Choice II, Cambridge, Cambridge UP.
- Myles G (1994) Public Economics, Cambridge, Cambridge UP.
- Pearce, D. W. and Turner, K. C. (1991) The Economics of Natural Resources and the Environment, Wheatsheaf.
- Rosen, H (1999) Public Finance (5th ed), Homewood, Irwin.
- Self, P (1993) Government by the Market? The Politics of Collective Choice, MacMillan.
- Stiglitz, J E (1999) Economics of the Public Sector (3rd ed.), Princeton.

Trotman-Dickenson, D (1996) The Economics of the Public Sector Houndsmill, MacMillan.

Whyne, D K and Bowles, R A (1981) The Economic Theory of the State, Martin Robertson.

Materials and Equipment

Apart from the textbook and course readings, no additional material is required for this course. Students will not be allowed to use computers or electronic calculators in the examination.

Assessment Requirements

Essay 1,	Due	Friday August 11	25%
Essay 2,	Due	Friday September 15	25%
Final Exam		(October/November)	50%

Essay topics will be distributed during the year with the appropriate set of lectures.

Criteria Used to Assess Work

In-course work and exams are intended to assess the student's capabilities in terms of:

Scholarship: What depth of knowledge and understanding of the field, including the leading lines of schools of thought and the main contributors, is displayed?

Coverage of Topic: Has the material been covered comprehensively, but with discrimination of what is importance and relevant?

Depth and coherence of analysis: Does the work indicate that the student has accurately interpreted the information available, has considered critically the various viewpoints, understands the topic?

Quality of argument: Is the work logical, coherent, rigorous and internally consistent? Are arguments clearly put and counterarguments anticipated, examined, accepted or rebutted? Does the reader have confidence that the analysis and conclusions drawn are reliable and accurate? Are assertions supported by argument, authority or evidence (or all three)?

Clarity of Expression: Can the student convey ideas and conclusions clearly and with concision and precision? Is the writing lucid, so that the reader does not have to re-read or re-interpret it to understand it?

Use of readings and supplementary materials: Does the work draw on readings supplied or recommended by the lecturer, and on other material located by students at their own initiative?

Technical presentation: Is the student able to write good English, spell correctly, lay out work clearly, and make effective use of graphics and tabulations? Are instructions followed regarding format? Is referencing accurate and complete to a standard format?

Originality: Is there evidence of original and critical thinking on the part of the student, in addition to merely reporting the view of others, describing or summarising?

Intellectual Honesty

A high standard of intellectual honesty is required in all the work in this course.

Presentation of work

All in-course written assignments should be typed, with 1.5 line spacing and with a 3cm margin for comments. Insert page numbers. Ensure your name and course is clearly marked on the front. PLEASE DO NOT USE PRESENTATION FOLDERS OR BINDINGS. Please staple pages at top left.

Penalties

Extensions may be granted to those who meet the University's aegrotat rules (e.g. medical certificate, or personal bereavement, or critical personal circumstance involving the health of a close relative or personal circumstance beyond your control). If you are having troubles let Bob Stephens or Cath Wallace know – confidentiality is guaranteed.

Essays not subject to extensions and not handed in by the due date or by the date of an extension will have their mark out of 100 reduced by 3 percentage points for each day that the essay is late. Please pass in any late essays to the lecturer concerned or to the Administration Assistant at the School of Government, so that the time and date it was received can be recorded. Essays handed in more than 5 days after the due date or after the date of an extension will not be accepted unless there are special circumstances. Essays significantly over the required length will be returned for the student to rewrite.

Mandatory Course Requirements

Adequate performance in assignments, including any work for tutorials.
Attendance at 75% of tutorials

Communication of Additional Information

- Information relating to this course will be posted on Rutherford House Mezzanine floor noticeboards for both Economics and Public Policy.
- And on Blackboard.

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar available in hard copy or under 'About Victoria' on the VUW home page at www.vuw.ac.nz.

Student 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 are to be taken if there is a complaint. For information about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor or refer to the statute on the VUW policy website at www.vuw.ac.nz/policy/studentconduct. The Policy on Staff Conduct can be found on the VUW website at 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; class representatives may be able to help you in this. If you are not satisfied with the result of that meeting, see the Head of School or the relevant Associate Dean; VUWSA Education Coordinators are available to assist in 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 at 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. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other student or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

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

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 Impairments

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities the same opportunity as 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, 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 (DSS) to discuss your individual needs and the available options and support on a confidential basis. DSS are located on Level 1, Robert Stout Building, telephone (04) 463 6070, email disability@vuw.ac.nz. The name of your School's Disability Liaison Person is in the relevant prospectus or can be obtained from the School Office or DSS.

Student Support

Staff at Victoria want students to have positive learning experiences at the University. Each Faculty has a designated staff member who can either help you directly if your academic progress is causing you concern, or quickly put you in contact with someone who can. Assistance for specific groups is also available from the Kaiwawao Māori, Manaaki Pihipihinga or Victoria International.

In addition, the Student Services Group (email student-services@vuw.ac.nz) is available to provide a variety of support and services. Find out more at www.vuw.ac.nz/st_services/.

VUWSA employs 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 (tel. 04 463 6983 or 04 463 6984, email education@vuwsa.org.nz) is located on the ground floor, Student Union Building.

Manaaki Pihipihinga - Maori and Pacific Mentoring Programme (Faculty of Commerce and Administration)

This is a mentoring service for Maori and Pacific students studying at all levels. Weekly one hour sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade, and Room 210 and 211, Level 2, Railway West Wing. Sessions cover drafting and discussing assignments, essay writing, and any questions that may arise from tutorials and/or lectures. A computer suite networked to Cyber Commons is available for student use.

To register with Manaaki Pihipihinga, please contact one of the following:

Puawai Wereta
Room 210, Level 2
Railway West Wing
Tel. (04) 463 8997
Email: Puawai.Wereta@vuw.ac.nz

Fa'afai Seiuli
Room 109 B
14 Kelburn Parade
Tel. (04) 463 5842
Email: Faafoi.Seiuli@vuw.ac.nz