

School of Government

Publ 203 / Econ 224 Introduction to Public Economics

Trimester One 2007

COURSE OUTLINE

Contact Details

Course Coordinator: Dr Antong Victorio, Rutherford House 807 (RH 807)
Phone 04 463 – 5709. Email: Antong.Victorio@vuw.ac.nz

Administrator: Francine McGee, RH 821, Phone 04 463 – 6599. Email: Francine.McGee@vuw.ac.nz

Class Times and Room Numbers

Lecture Timetable: Monday 11.30 – 13.20 Rutherford House Lecture Theatre Two (RH LT2)
Wednesday 12.40 – 13.30 Government Buildings Lecture Theatre Three (GB LT3)

Tutor(s) and Tutorial Timetable: To be announced

Final Examination: June 2007

Course Objectives

This course provides an introduction to the public sector from a micro-economic perspective. The role of government and its taxation are examined for contemporary market failures, such as may arise from imperfect competition, externalities, missing information, destructive strategic behaviour and inefficient saving. The functions of government may also be examined in reference to public choice and re-distributive justice.

This course is worth 22 points and consists of three lecture hours per week. It represents one-sixth of a normal full-time load and students are expected to spend about five hours a week on course-related study. Attendance is strongly recommended because of the course-materials' heavy-reliance upon lecture topics. It is strongly recommended, but not required, that students also attend ONE tutorial hour each week, to be chosen from among two to four sessions made available. During the tutorials, discussions of course material and previous-years' test questions help prepare for assessment. Unless advised, students may change their chosen tutorial without having to inform the lecturer.

The first terms test, consisting of 25% of the course mark, will be held in-class on Monday 26 March 2007. The second terms test also consisting of 25% of the course mark, will be held in-class on Monday 14 May 2007. The second test will only pertain to the material after the first test. Each test can normally be finished within 50 minutes and will consist of between 1-3 short essay-type questions. The final exam, consisting of 50% of the course mark, is scheduled for sometime in June, will be three hours in length, and will be based upon material covered by the whole course.

Assessment Requirements and Penalties

Course grades are determined by two in-class terms tests, each of which counts as 25%, and a final exam which counts as 50%. If a test or the final exam is missed, a provisional failing mark no higher than the numerical equivalent of an "E" will be awarded. The lecturer then decides on whether a substitute test or (final exam) will be given. Otherwise, the failing mark is retained. Official documentation must be provided if a test or the exam is missed, for example, a medical certificate indicating the nature of the

illness. If a substitution is granted, it may have to be harder than the regular one. This is to be fair to other students who may have undertaken greater pains to overcome undocumented circumstances. For this reason, it is advantageous to sit the tests and the final exam despite difficult circumstances.

Mandatory Course Requirements

In order for the course mark to be a pass, the weighted average mark for the two tests and the final exam must be an overall letter grade of C or better.

Course Content and Readings

Topics and readings are listed below. The importance of a reading is designated as either *strongly recommended* or *optional*. ("Required" is not used, and is replaced by "strongly recommended" in order to recognize that copies of the textbook are available at the library.) Course requirements can be satisfied by reading only those listed below as strongly recommended, and practicing upon the test questions of previous years. Those listed as optional are useful for more advanced study.

The following textbook - useful for the first half of the course - is strongly recommended. It is available at the Victoria University bookstore, and at the library on three-day loan and closed reserve:

Victorio, Andres G. (Antong) 2004. *Applied Models in Public Policy, 2nd edition*, Ateneo de Manila University (Philippines) and Macklev Books International (USA). The first edition (1996), is also suitable but has slightly different examples for some chapters.

Other strongly-recommended readings are available at the student notes distribution centre as a readings packet labelled "Publ 203/Econ 224 – Introduction to Public Economics 2006, Readings and Practice Problems". This packet contains short applied-economics articles, and excerpts from international textbooks. It also contains copies and sample answers of previous years' tests and final examinations. Copies of it are NOT available at the library. Readings listed below as "optional" will not be distributed.

Part I: The fundamental theorems of welfare economics: (2 lecture weeks, 26 February to 11 March)

Victorio, Andres G. (Antong) (2004), *Applied Models in Public Policy, 2nd edition*, Chapt. 1 and 2, (Introduction) and (Economics and Pareto Efficiency), Ateneo de Manila University (Philippines) and Macklev Books International (USA). (strongly recommended).

_____ (1995), *Applied Models in Public Policy 2nd edition*, Chapt.3 (Perfect Competition). (strongly recommended.)

The Economist (2002), "Economics Focus: Never the Twain Shall Meet," 2 February, p. 70 (strongly recommended, in readings packet)

_____ (2005), "Human Evolution: Homo Economicus?" 9 April, p.65 (strongly recommended, in readings packet)

_____ (2000), "One True Model?" 8 April, p. 92 (strongly recommended, in readings packet)

_____ (2000), "Barriers Real and Imagined," 9 December, p. 95 (strongly recommended, in readings packet)

Friedman, Milton (1980), "The Power of the Market" In-class video (optional, time-permitting.)

Stiglitz, J (1988), *Economics of the Public Sector*, "The Economic Rationale for Government - Chapter 3", W W Norton. (optional)

Part II: Categories of market failure and economic instruments for intervention: (9 lecture weeks, 12 March to 27 May)

1.) Imperfect competition:

Victorio, Andres G. (Antong) (2004), *Applied Models in Public Policy, 2nd ed.*, Chapt. 4 - Imperfect Competition. (strongly recommended).

The Dominion Post (2006), "Home Fees to Fall as MP's Axe Monopoly," 15 March, p A5 (strongly recommended, in readings packet)

Sunday Times of London (1995), "American Tourists Get Half-Price Car Hire" 15 January, p.5 (strongly recommended, in readings packet)

The Economist (1998), "Indiscriminate Pricing," 1 August, p. 70 (strongly recommended, in readings packet)

_____ (2000), "Divide and Rule", 20 May, p. 104 (strongly recommended, in readings packet.)

Landsburg, Steven E. (1991) *Price Theory and Applications*, “Monopoly - Chapt. 10”, The Dryden Press, New York. (optional)

2.) Market failures from externalities and public goods:

Victorio, Andres G. (Antong) (2004), *Applied Models in Public Policy*, 2nd ed., Chapt. 5 - Economic Externalities. (strongly recommended).

_____ (1994), Rubbish Disposal: Council v. Evaders. *The Evening Post*, Wellington, 27 May, (strongly recommended, in readings packet.)

The Dominion (1995), February 16, p. 2 “More Might Die if Speed Limit Rises, MP’s Told” and “Speedcam Below Expectations” (strongly recommended, in readings packet)

_____ (1995), February 24, p.17, “Move to Get Foresters to Pay for Road Damage” (strongly recommended, in readings packet).

The Economist (2001), “Economics Focus: Fuelling Discontent,” 19 May, p. 75 (strongly recommended, in readings packet).

_____ (2001), “Do Guns Mean Crime?” 13 January, p. 80 (strongly recommended, in readings packet)

Nicholson, Walter (1990), *Microeconomic Theory, Fifth Edition*, “Externalities and Property Rights - Chapter 21”, The Dryden Press. (optional)

Victorio, Andres G. (Antong) (2004), *Applied Models in Public Policy*, 2nd ed., Chapt.6 - Public Goods. (strongly recommended).

Landsburg, Steven E. (1991), *Price Theory and Applications*, “Common Property and Public Goods”, pp. 463-471. Dryden Press, New York. (strongly recommended, in readings packet)

The Economist (2000), “The Problems Stack Up,” 9 December, p. 67 (strongly recommended, in readings packet)

3.) Failures from imperfect information, such as in the market for insurance:

Victorio, A. (2004), “Information Failures”, Chapter 6 in *Perspectives in Applied Economics*, draft of 2004, Copyrighted to the author. (strongly recommended, in readings packet).

_____. (2002), “Non-Market Insurance and Intrafamily Transfers”, *Applied Economics Letters*, Vol. 9, No. 2, February, pp. 99-102. (optional).

The Economist (1995), “An Insurer’s Worst Nightmare,” 29 July, p 66 (strongly recommended, in readings packet”

ASB Bank New Zealand (2000), “EasyLife Insurance: Information Booklet” (strongly recommended, in readings packet)

4.) Other market failures - from inefficient strategic behaviour, superannuation and education:

Victorio, A. (2004), *Applied Models in Public Policy* 2nd ed., Chapt. 15, Game-Theoretic Models. (strongly recommended.)

_____ (2005), “Contemporary Economic Games,” *Policy Quarterly* Vol. 1 No. 3, pp. 16-22 (strongly recommended, in readings packet).

_____ (2003), “Life-Cycle Savings and Market Failure,” Copyright to the author, previously published in the *Journal of Business and Governance*, June 2003. (strongly recommended, in readings packet.)

Rasmusen, E. (1989) *Games and Information: An Introduction to Game Theory*, “Chapt 1 - The Rules of the Game”, Basil Blackwell, New York (optional).

Part III: Problem Areas in Government Intervention (one week, time permitting, 28 May to 3 June):

1.) Taxation inefficiency and the distribution of income:

Hyman, David (1990), *Public Finance: A Contemporary Application of Theory to Policy*, “Taxation, Prices, Efficiency and the Distribution of Income – Chapt. 12,” pp. 384-425, Dryden Press (689 total pages). (optional.)

2.) Government failure and public expenditure growth:

Cullis, John and Philip Jones (1992), *Public Finance and Public Choice*, “Public Failure and Public Expenditure Growth – Chapter 14,” pp. 370 – 395. McGraw-Hill UK (486 total pages). (optional).

3.) Intergovernmental relations:

Boadway, Robin W. (1979), *Public Sector Economics*, "The Theory of Fiscal Federalism – Chapter 14," pp. 405- 433. Winthrop Publishers USA (467 total pages). (optional).

4.) Other topics in public choice theory:

Borooah, Vani K. (1993), "Public Choice: An Introductory Survey," Chapter 6 in *Current Issues in Public Sector Economics*, edited by Peter M. Jackson, pp. 132-155. MacMillan Press London (305 total pages). (optional).

Communication of Additional Information

Any information concerning changes to class times or the like will be conveyed to students in class. Blackboard will not normally be used for such announcements and for course-related materials. Queries may be sent to the lecturer by email at antong.victorio@vuw.ac.nz or by leaving a phone message at the university number 463-5709.

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 Programme

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the

programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email manaaki-pihipihinga-programme@vuw.ac.nz or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.