

School of Government

**PUBL 303**  
**PUBLIC SECTOR ECONOMICS**

Trimester Two 2007

**COURSE OUTLINE**

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**Contact Details**

**Course Coordinator:** Associate Professor Robert Stephens  
Rutherford House 825  
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Ms. Cath Wallace  
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**Note: Please ensure that e-mails use **PUBL 303** as the first words in the Subject Line, otherwise they risk being deleted as SPAM.**

**Class Times and Room Numbers**

Lectures:

Wednesday: 3.40pm – 5.30pm in Railway (RWW) 501, Pipitea Campus  
Friday: 3.40pm – 4.30pm in RWW 501

Tutorials:

**Either**

Friday: 10.30am – 11.20 am in RWW 415

**OR**

Friday 2.40pm – 3.30pm in RWW 415

**OR (if needed)**

Friday 4.40pm – 5.30pm in RWW 501

**Final Examination:** Between 15 October and 11 November 2007 (inclusive and inclusive of Saturdays)

## **Course Objectives**

The major aim of the course is for students to understand 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 various economic approaches to public economics, especially 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 1 concentrates on Learning Objectives 1-4 and 7-9.

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

## **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.

## **Group Work**

Group work is required for and in some tutorials. There is no group assessment.

## **Assessment Requirements**

Each student's final grade for the course will be based on the following:

Essay 1, due FRIDAY 17 AUGUST	25%	Length 2500 words
Essay 2, due FRIDAY 14 SEPTEMBER	25%	Length 2500 words
Final Examination: Between 15 October and 11 November 2007	50%	3 hours
(dates inclusive and inclusive of Saturdays; closed book, no calculators etc required;)		
<b>Total</b>	<b>100%</b>	

## **Penalties**

Penalties will be incurred for last submission of work, or for work submitted that is excessively long. Late assignments will have their mark reduced by 0.5 of a mark for each day it is overdue unless there is a very good reason why it was late. Assignments will not be accepted that are over a week late. Assignments excessively exceeding the word limit will have 3 marks deducted.

## **Mandatory Course Requirements**

To fulfil the mandatory paper requirements for this paper you must:

1. Attend 9 out of 12 tutorials
2. Submit all assignments by the due date.

Students who fail to satisfy the mandatory requirements for passing this paper, other than the requirement to obtain a C grade overall, will not receive a graded result, and their records will show a K Grade.

## **Course Content**

Public economics provides an examination of 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, as well as the appropriate methods of raising the necessary revenue to finance public expenditure. Some discussion of national aggregates and indicators will be presented.

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 2007, 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.

### **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., 6<sup>th</sup> Edition.

And/or

Harris, Jonathan (2006) *Environmental and Natural Resource Economics: a contemporary approach*, Houghton-Mifflin, Boston NY, ISBN 0618496335, 503p

#### **For the section on social security and education, see also:**

Barr, N. (1998) *The Economics of the Welfare State*, Oxford, Oxford University Press (3<sup>rd</sup> 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).

### Lecture Topics and Lecturers

#### 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, 3<sup>rd</sup> 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. .
- Wilkinson, M. (1994) "Paying for public spending: is there a role for earmarked taxes" *Fiscal Studies*, 15(4) Nov.
- Also: Barr, N (1998) Ch. 4 and 5 of *The Economics of the Welfare State*, London, Weidenfeld and Nicholson, 3<sup>rd</sup> 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* (4<sup>th</sup> 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 relating to 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., 6<sup>th</sup> Edition.

And/or

Harris, Jonathan (2006) *Environmental and Natural Resource Economics: a contemporary approach*, Houghton-Mifflin, Boston NY, ISBN 0618496335, 503p

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

<< **20 August – 2 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 (3<sup>rd</sup> 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 (3<sup>rd</sup> ed.), Ch. 13

### **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 (4<sup>th</sup> 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 (5<sup>th</sup> 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 (5<sup>th</sup> 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 (3<sup>rd</sup> 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.

### **Communication of Additional Information**

Additional information will be provided through Blackboard, e-mail to all students, or written information provided in class.

### **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 or go to [www.vuw.ac.nz/policy](http://www.vuw.ac.nz/policy).

For information on the following topics, go to the Faculty's website [www.vuw.ac.nz/fca](http://www.vuw.ac.nz/fca) under Important Information for Students:

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

### **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](mailto: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](mailto:pacific-support-coord@vuw.ac.nz) or phone (04) 463 5842.