

School of Government

## **Publ 203 Introduction to Public Economics**

Trimester One 2008

### **COURSE OUTLINE**

#### **Contact Details**

**Course Coordinator:** Dr Antong Victorio, Rutherford House 807 (RH 807)  
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#### **Class Times and Room Numbers**

**Lecture Timetable:** Wednesday 14:40 – 15:30 Govt Buildings Lecture Theatre Three (GBLT3)  
Friday 14:40 – 16:30 Govt Buildings Lecture Theatre Three (GB LT3)

**Tutor(s) and Tutorial Timetable:** To be announced

**Final Examination:** June 2008

#### **Course Objectives**

This course examines contemporary market failures for selected topics such as imperfect competition, externalities, missing information, destructive strategic behaviour and inefficient saving. The corresponding government roles are analyzed with possible reference to theories of public choice and redistributive justice.

The 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.

#### **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 fail grade (D, E or K) will be awarded. The first terms test will be held in-class on Friday 28 March 2008. The second terms test will be held in-class on Friday 16 May 2008. 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.

In exceptional cases, and only when official documentation is provided (for example, a medical certificate indicating the nature of the illness), the course coordinator may allow a student to sit a substitute test or (exam), which may be harder than the regular one. This is to be fair to other students who may have undertaken greater pains to overcome undocumented circumstances. Thus, it is advantageous to sit the tests and the final exam despite difficult circumstances.

## Mandatory Course Requirements

In addition to achieving a course mark of 50% or better, to pass this course students must sit both tests and the exam.

## 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*, 2<sup>nd</sup> edition, Ateneo de Manila University (Philippines) and Macklev Books International (USA). The first edition (1996), is also suitable but has slightly different examples in 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 2008, 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, 25 February to 9 March)

Victorio, Andres G. (Antong) (2004), *Applied Models in Public Policy*, 2<sup>nd</sup> 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* 2<sup>nd</sup> 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, 10 March to 25 May)

#### 1.) Imperfect competition:

Victorio, Andres G. (Antong) (2004), *Applied Models in Public Policy*, 2<sup>nd</sup> 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*, 2<sup>nd</sup> 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*, 2<sup>nd</sup> 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* 2<sup>nd</sup> 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, optional, 26 May to 1 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](mailto: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 on the ground floor (EA005). This counter is the first point of contact for :

- 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.

#### Notice of Turnitin Use

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <<http://www.turnitin.com>>. Turnitin is an on-line plagiarism prevention tool which identifies material that may have been copied from other sources including the Internet, books, journals, periodicals or the work of other students. Turnitin is used to assist academic staff in detecting misreferencing, misquotation, and the inclusion of unattributed material, which may be forms of cheating or plagiarism. *At the discretion of the School, handwritten work may be copy typed by the School and subject to checking by Turnitin.* You are strongly advised to check with your tutor or the course coordinator if you are uncertain about how to use and cite material from other sources. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

#### 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 <http://www.victoria.ac.nz/home/about/policy/default.aspx>

For information on the following topics, go to the Faculty's website [www.victoria.ac.nz/fca](http://www.victoria.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 6015. 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.