

School of Government

PUBL 303
PUBLIC SECTOR ECONOMICS

Trimester Two 2008

COURSE OUTLINE

Names and Contact Details

Course Coordinator: Associate Professor Robert Stephens
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Note: 1) PUBL 303 is recognised as satisfying the majoring requirement for Economics.
2) Please ensure that *e-mails* use PUBL 303 as the first words in the Subject Line, otherwise they risk being deleted as SPAM.

Trimester Dates

Trimester 2, Monday 7 July to Saturday November 8, 2008.

Class Times and Room Numbers

Lectures:

Monday: 11.30 am – 1.20 pm in Railway (RWW) 129, Pipitea Campus

Thursday: 11.30 am – 12.20 pm in RWW 129

Tutorials, starting Thursday July 10:

Either

Thursday: 10.30am – 11.20 am in RWW 129

OR

Thursday 2.40 pm – 3.30 pm in RWW 129 (if required)

Final Examination: Between 17 October and 8 November 2008 (inclusive of Saturdays)

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 2008, 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.

See page 6 for lecture schedule.

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, including 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 microeconomic policy and 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, especially 3, 4, 5, 6 and 8.

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.

Group Work

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

Readings

The textbook for the course is:

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

Supplementary readings will be specified for each section.

For the section on the economics of the environment and natural resource management, see also:

Common, Michael & Stagl, Sigrid (2005) *Ecological Economics: An Introduction*, Cambridge UP, Cambridge, ISBN 13-978-0-521-01670-4.

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

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

Tietenberg, Tom (2006) *Environmental and Natural Resource Economics*, Pearson Addison-Wesley, Reading Mass., 7th Edition. ISBN 0-321-30504-3

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

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).

Materials and Equipment

Apart from the textbook and course readings, no additional material is required for this course. Students will need to supplement the textbook and course readings with material accessed from the Library, JSTOR or the Internet. Where use is made of Internet sites, please provide reference details and date accessed.

Students will not be allowed to use computers or electronic calculators in the examination.

Assessment Requirements

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

Essay 1, due FRIDAY 15 AUGUST	25%	Length 2500 words
Essay 2, due FRIDAY 26 SEPTEMBER	25%	Length 2500 words
Final Examination:		
Between 17 October and 8 November 2008	50%	3 hours
(Dates inclusive of Saturdays; closed book, no calculators etc. required.)		
Total	100%	

Assignments should be placed in the secure box at School of Government reception (8th floor Rutherford House) during the office hours, which are 8.30 am – 5.00 pm. The assignment box is cleared daily, and assignments will be date stamped. Students should keep a secure copy of all assignments (i.e. hard copy and e-file).

Students with examinations are obliged to be present at university until the end of the examination period. **Examination dates for trimester two: Friday 17 October to Saturday 8 November 2008.**

Penalties

Penalties will be incurred for late 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 requirements for this course you must:

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

Students who fail to satisfy the mandatory requirements for passing this course, other than the requirement to obtain a C grade overall, will not receive a graded result, and their records will show a “K” (fail due to not satisfying mandatory course requirements, even though the student's course requirements reached the level specified for a pass).

To pass PUBL 303 a student must meet the mandatory requirements and achieve at least a total of 50% over all the assessment.

Communication of Additional Information

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

Lecture Topics and Lecturers

A. The Economics of the Public Sector

Associate Professor Bob Stephens

July 7, 10, 14 & 17

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 & Munro, Alistair (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.

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, 3rd ed.

B. The Economics of Politics

Associate Professor Bob Stephens

July 21 & 24

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 & Munro, Alistair (1999) *Economics of the Public Sector*, Prentice Hall Europe, Chapters 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

July 28, 31, August 4, 7, 11 & 14

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

Course Notes: Book 2 – various readings relating to Part C topics outline.

Plus:

Common, Michael & Stiglitz, Sigrid (2005) *Ecological Economics: An Introduction*, Cambridge UP, Cambridge, ISBN 13-978-0-521-01670-4.

See also

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

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

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.

<< 16 August – 31 August – Mid Semester Break – No classes >>

D. Taxation, Theory and Reform

Associate Professor Bob Stephens

September 1, 4, 8, 11, 15 & 18

9 Lecture hours, 3 Tutorials

The tax base and tax rates, tax revenue and tax expenditures. The economic effects of tax: incidence, incentives, efficiency and equity. The structure of personal income tax and impacts/options for changing tax rates/thresholds. The equity and efficiency impacts of GST.

Reading: Connolly, Sara & Munro, Alistair (1999) *Economics of the Public Sector*, Prentice Hall Europe, Chapters 10-13.

Course Notes: Book 1

Stephens, R. (1993) “Radical Tax Reform in New Zealand” *Fiscal Studies*, Vol. 14 (3), pp. 45-63.

- Diewert, E. and Lawrence, D. (1995) "The Excess Burden of Taxation in New Zealand", *Agenda*, Vol. 2(1), pp. 27-34.
- Stephens, R. (2007) "The Economic and Equity Effects of GST in New Zealand", in R. Kreyer and D. White (eds.) *GST in Retrospect and Prospect*, Wellington, Brookers.
- Brown, C. and Jackson, P. (1990) "Partial Equilibrium Analysis of Taxation II: Modelling the Economic Effects of Tax Policy" in *Public Sector Economics*, Blackwell, 4th ed.
- Tax Review (2001) "Tax Rates, Ch. 4 of *Issues Paper*, Tax Review 2001, Wellington.
- Creedy, J. (2004) "Labour Supply Incentives in Alternative Tax and Transfer Schemes: a Diagrammatic Introduction" *Australian Economic Review* 37(2), pp. 23- 241.
- NZIER (2007) "New Zealand's tax base 1987-2007", *Quarterly Predictions*, December, pp. 21-24.

E. Social Security

Associate Professor Bob Stephens

September 22, 25, 29 & October 2

6 Lecture Hours, 2 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 & Munro, Alistair (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. (2008) "The Changing Social Security System" in N. Lunt, M. O'Brien and R. Stephens (eds.) *New Zealand, new welfare*, Melbourne, Cengage Publishers 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 6 & 9

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 & Munro, Alistair (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.

Barr, N. (2004) "Higher Education Funding" *Oxford Review of Economic Policy*, 20(2), pp. 264-283.

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

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 Jackson, P. M. (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. & Roberts, J. (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.
- Whynes, D. K. and Bowles, R. A. (1981) The Economic Theory of the State, Martin Robertson.

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.

Use of Turnitin

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 Head of 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 www.victoria.ac.nz/home/about/policy/students.aspx

For information on the following topics, go to the Faculty's website www.victoria.ac.nz/fca under Important Information for Students:

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

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 students or staff.

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

Note: including the work of others will not be considered plagiarism as long as the work 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:

www.victoria.ac.nz/home/studying/plagiarism.html

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 6015. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.