

School of Government

PUBL 303
PUBLIC SECTOR ECONOMICS

24 Points

Trimester Two 2009

COURSE OUTLINE

Names and Contact Details

Course Coordinators: Associate Professor Robert Stephens
Rutherford House, Level 8, Room 825
(04) 463 – 5449
Bob.Stephens@vuw.ac.nz

Cath Wallace
Rutherford House, Level 8, Room 826 (and often on Wednesday
mornings at Cotton 224)
(04) 463 – 5713 (Rutherford), 463 – 6115 (Cotton, no messages
please) or 021 891 994
Cath.Wallace@vuw.ac.nz

Administrator: Mara Robertson
Rutherford House, Level 8, Room 821
(04) 463 – 6599
Mara.Robertson@vuw.ac.nz

Note: 1) **PUBL 303** is recognised as satisfying one of the majoring requirements 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

Teaching Period: Monday 13 July to Friday 16 October 2009

End of Year Study Period: Monday 19 October to Monday 26 October 2009

Examination Period: Tuesday 27 October to Saturday 14 November 2009 (inclusive)

Note: Students who enrol in courses with examinations should be able to attend an examination at the University at any time during the formal examination period.

Class Times and Room Numbers

Lectures:

Monday: 11.30 am – 1.20 pm in Railway (RWW) 413, Pipitea Campus
Thursday: 11.30 am – 12.20 pm in RWW 413

Tutorials, starting Thursday July 16:

Thursday: 12.30 pm – 1.20 pm in RWW 413

Withdrawal dates: Information available via
<http://www.victoria.ac.nz/home/admisenrol/payments/withdrawalsrefunds.aspx>

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 2009, 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.

Course Objectives

The major aim of the course is for students to analyse the economic rationale for the degree of government involvement in the modern economy and the nature of collective choice problems. 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. The post 2008 approach will be evaluated if there is a clearly identifiable underpinning to its policy development. Theory and cases on taxation, environmental and natural resources management, pollution control theory and the economics of global environment problems, social security and education will permit these issues to be considered in-depth.

Course Objectives: By the end of this course, students should be able to:		Major Attributes
1	Use economic theory to analyse the economic borders of the state, market and not-for-profit sectors.	MA 4, MA 5
2	Appraise the relative importance of market failure and government failure for government policy, and evaluate alternative economic frameworks for analysing public economic policy.	MA 3, MA 4
3	Apply these alternative frameworks to a variety of practical situations, including environmental policy, social security policy, education and taxation.	MA 9, MA 11
4	Appraise the relative importance of economic efficiency, equity and sustainability in the determination of society well-being and social outcomes.	MA 2, MA 3
5	Appraise the appropriate form of government involvement in a modern mixed economy, ranging from direct provision to financing private provision, use of taxes and subsidies, regulation, or contracting.	MA 2, MA 4
6	Demonstrate an understanding of the normative and practical limits to public economics, including the limits to the coercive role of the state.	MA 2, MA 4
7	Combine theoretical and empirical information to illuminate key contemporary public economic policy issues.	MA 5, MA 7
8	Appraise different disciplinary contributions (especially neo-classical economics, behavioural economics, ecological economics, public choice and institutionalism) to the development, implementation and evaluation of public economic policy.	MA 3, MA 5
9	Appraise alternative structures of governance, agencies and governance rules.	MA 4

Course Objectives: By the end of this course, students should be able to:		Major Attributes
10	Articulate the relevant criteria that might be used to assess the advantages and disadvantages of particular policy options.	MA 1, MA 9

Major Attributes: PUBL majors will be able to	
MA1	Judge the defining features of good policy analysis and advice and appraise how they are best produced
MA2	Demonstrate an understanding of the influence of political ideas and philosophies, and of constitutional and political institutions on public policy
MA3	Demonstrate an understanding of the contribution of quantitative and qualitative methods in policy analysis
MA4	Identify the nature and respective roles of state and civil society in the development, implementation and evaluation of public policy, and demonstrate an understanding of the distinction between government and governance
MA5	Appraise different disciplinary contributions to the development, implementation and evaluation of public policy
MA6	Judge the relevance and importance of evidence in policymaking
MA7	Apply the comparative method to policy analysis, and identify insights that might be drawn from other policy jurisdictions
MA8	Judge and articulate the relevant criteria that might be used in assessing the advantages and disadvantages of particular policy options
MA9	Analyse complex policy issues from multiple perspectives and identify opportunities for innovation
MA10	Express ideas succinctly and persuasively both in written form and orally
MA11	Construct and articulate rationales for public policy intervention
MA12	Demonstrate an understanding of the significance of ethics and accountability in the study and practice of public policy
MA13	Interpret the significance of the Treaty of Waitangi (Te Tiriti o Waitangi) in the study and practice of public policy in New Zealand

Course Delivery

This course will be delivered with 3 hours of lectures per week, plus one tutorial per week. The lectures will be formal lecture hours, with a two hour block Monday 11.30-1.20, with a 5 minute break at around 12.30 and a one hour lecture on Thursday 11.30 - 12.20. There will be opportunity for discussion during each lecture. The lecture outline gives a rough indication of the topics to be covered in each lecture, but that may vary if required or to follow new and specific issues. The tutorial will be from 12.30 - 1.20 on Thursday, where students will be expected to prepare oral answers to previously given questions. Not all of the tutorial questions will be covered, as either in depth discussion on a topic may occur, or some other issue has arisen that would be more fruitful to discuss.

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 this course.

Group Work

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

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:

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

and/or

Tietenberg, Tom (2003) *Environmental and Natural Resource Economics*, 6th Edition, Addison-Wesley Longman, Reading, MA, USA, ISBN 0-321-30504-3, xxxi+655p.

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

Barr, N. (1998) *The Economics of the Welfare State*, 3rd Edition, Oxford, Oxford University Press.

Copies of the above books are held in the Library.

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 (Volume 1). The second, to be available later, will contain readings for Cath Wallace's section of the course (Volume 2).

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 14 AUGUST	25%	Length 2500 words
Essay 2, due FRIDAY 25 SEPTEMBER	25%	Length 2500 words
Final Examination:	<u>50%</u>	3 hours
Total	100%	

Essay 1 concentrates on Learning Objectives 1 – 4 and 7 – 8.

Essay 2 relates to all Learning Objectives, especially 3, 4, 5, 6 and 8.

Essays should be placed in the secure box at School of Government reception (8th floor Rutherford House) during the office hours, which are 8.30am – 5.00pm. 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).

The final examination for this course will be scheduled at some time during the period from Tuesday 27 October to Saturday 14 November 2009.

Note: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

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, unless an extension has been granted. Word limits are to be observed. Essays more than 10% over the word limit will be returned for re-writing.

Mandatory Course Requirements

To fulfil the mandatory course requirements for PUBL 303 you must:

1. Complete both essays;
2. Attend 9 out of 12 tutorials; and
3. Obtain at least 40% in the final exam.

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).

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 13, 16, 20 & 23

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. Micro-economic efficiency and Pareto conditions; market failure and the positive theory of the state – public goods, externalities, uncertainty, imperfect & asymmetric information; equity and merit goods. Alternative economic frameworks, especially behavioural economics. Cost-benefit analysis; public-private partnerships.

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

Course Notes: Volume 1

Bailey, S. (1995) “The Economic Rationale for Government”, Ch. 2 of *Public Sector Economics: Theory, Policy and Practice*, London, MacMillan, pp. 16 – 41.

Stiglitz, J. (1989) “On the Economic Role of the State”, in A. Heertje (ed.) *The Economic Role of the State*, Basil Blackwell, pp. 11 – 85.

Mullainathan, S. & R. Thaler (2000) “Behavioral Economics”, *NBER Working Paper 7948*, National Bureau of Economic Research, Cambridge, MA, USA.

Grout, P. & M. Stevens (2003) “The assessment: Financing and managing public services”, *Oxford Review of Economic Policy*, Vol. 19, No. 2, pp. 215 – 234.

Layard, R. & S. Glaister (1994) “Introduction” in R. Layard & S. Glaister (eds.), *Cost-Benefit Analysis*, CUP, pp. 1 – 56.

B. The Economics of Politics and Organisations

Associate Professor Bob Stephens

July 27 & 30

3 Lecture hours, 1 Tutorial

Social and public choice; demand and supply side problems with government. Theories of the state: demand for public goods – voter-consumers and vote maximising politicians; supply of publicly provided goods and services and government failures; budget maximizing.

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

Course Notes: Volume 1

Le Grand, J. (1991) “The Theory of Government Failure”, *British Journal of Political Science*, Vol. 21, No. 1, pp. 423 – 442.

Self, P. (1993) "Economic Interpretations of Politics", Ch. 1 of *Government by the Market? The Politics of Public Choice*, Basingstoke, MacMillan, pp. 1 – 20.

C. The Economics of the Environment and Natural Resources

Cath Wallace

August 3, 6, 10, 13, 17 & 20

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, including climate change. Environmental and renewable resource management and institutions, including marine fisheries management. Problems of intertemporal allocation and scarcity; market and non-market valuation of costs and benefits. The economics of the control of international environmental harms.

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

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

Plus:

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

and/or

Tietenberg, Tom (2003) *Environmental and Natural Resource Economics*, 6th Edition, Addison-Wesley Longman, Reading, MA, USA, ISBN 0-321-30504-3, xxxi+655p.

<< 24 August – 4 September – Mid Trimester Break – No classes >>

D. Taxation, Theory and Reform

Associate Professor Bob Stephens

September 7, 10, 14, 17, 21 & 24

9 Lecture hours, 3 Tutorials

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

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

Course Notes: Volume 1

Diewert, E. and D. Lawrence (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, pp. 65 – 87.
- Brown, C. and P. Jackson (1990) “Partial Equilibrium Analysis of Taxation II: Modelling the Economic Effects of Tax Policy”, Ch. 12 of *Public Sector Economics*, 4th Edition, Blackwell, pp. 337 – 351.
- Tax Review (2001) “Tax Rates, Ch. 4 of *Issues Paper*, Tax Review 2001, Wellington, pp. 81 – 100.
- Creedy, J. (2004) “Labour Supply Incentives in Alternative Tax and Transfer Schemes: A Diagrammatic Introduction”, *Australian Economic Review*, Vol. 37, No. 2, pp. 230 – 241.
- NZ Treasury (2009) “Medium Term Tax Policy Challenges and Opportunities”, The Treasury, Wellington.
- Johannson, A., Heady, C. Arnold, J., Brys, B. and L. Vartia (2008) “Summary: Tax and Economic Growth”, OECD, ECO/WKP(2008)28, Presented at Tax Policy Conference, CAGRTR, Wellington, 12 February 2009, pp. 5 – 10, 23 – 30, 59.
http://www.victoria.ac.nz/sacl/CAGRTR/taxpolicy_conference/papers/Heady.pdf
- Gemmel, N., Kneller, R. & I. Sanz (2009) “The Growth Effects of Corporate and Personal Tax Rates in the OECD”, Presented at Tax Policy Conference, CAGRTR, Wellington, 12 February.
http://www.victoria.ac.nz/sacl/CAGRTR/taxpolicy_conference/papers/Gemmel,%20Kneller%20and%20Sanz.doc

E. Social Security

Associate Professor Bob Stephens

September 28, October 1, 5 & 8

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 & Alistair Munro (1999) *Economics of the Public Sector*, Prentice Hall Europe, Chapters 14 – 18.

Course Notes: Volume 1

- Stephens, R. (2008) “The Changing Social Security System” Ch. 4 of N. Lunt, M. O’Brien and R. Stephens (eds.) *New Zealand, New Welfare*, Melbourne, Cengage Publishers, pp. 27 – 40.
- Barr, N. (2000) “Fundamentals of Social Security Analysis”, *Social Security Journal*, March, pp. 1 – 28.
- Starke, P. (2008) “Radical Retrenchment and Restructuring”, *Radical Welfare State Retrenchment*, Palgrave Macmillan, pp. 94 – 131.

F. Economics of Education

Associate Professor Bob Stephens

October 12 & 15

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: Volume 1

Stephens, R. (1996) "Human Capital Theory, Practice and Measurement", *Victoria Economic Commentaries*, Vol. 13, No. 1, pp. 28 – 33.

Maani, S. (1997) "Access to Higher Education", Ch. 7 of *Investing in Minds: The Economics of Higher Education in New Zealand*, Wellington, Institute of Policy Studies, pp. 152 – 181.

Barr, N. (2004) "Higher Education Funding", *Oxford Review of Economic Policy*, Vol. 20, No. 2, pp. 264 – 283.

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.

For the following important information follow the links provided:

Academic Integrity and Plagiarism

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

General University Policies and Statutes

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

Faculty of Commerce and Administration Offices

<http://www.victoria.ac.nz/fca/studenthelp/Contactus.aspx>

Manaaki Pihipihinga Programme

http://www.victoria.ac.nz/st_services/mentoring/