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## Course outline

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### Contact information

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### Course information

The web address for this course is <http://teaching.fec.anu.edu.au/ECON2131/>. Core material for this course will be available on WebCT (<https://webct.anu.edu.au/login/>), including course outline, handouts, weekly exercises, links to the reserve collection and electronic resources, notices and announcements. All students formally enrolled in the course should have access to WebCT. Those students who are not formally enrolled and are considering doing so should provide their student ID numbers to the lecturer in order to gain access to WebCT while they decide on changing their enrolment.

### Course overview and learning outcomes

This course aims to introduce students to some of the important concepts and techniques required to identify the limits of what markets can achieve and to evaluate the potential for government intervention to achieve better outcomes. By the end of the course students should have an appreciation of the principal forms of market failure that provide a justification for government intervention, be familiar with the main policy instruments used to mitigate market failures and the principles that guide their optimal use, but also understand the limitations of government intervention - for instance, understand how the presence of information problems both explains the forms that policy intervention take and imposes limits on what can be achieved by it.

### Class organization

The Pass component of Public Economics – Theory (ECON2131) consists of *three contact hours per week* divided into a two-hour class and a one-hour class.<sup>1</sup> These classes will combine formal lectures and practical exercises. At the end of each topic students will receive a list of exercises that will include the exercises already treated in class, to motivate the topic, and the exercises to be covered at the beginning of the following week, to review the topic.

### Assessment

Assessment for this unit will consist of an assignment and a final exam. Both are compulsory and non-redeemable.

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<sup>1</sup> There is an additional hour on the second day for meetings with the Honours and Graduate students, enrolled in ECON2132 and ECON8034 respectively, in the weeks where meetings are scheduled (weeks 3, 5, 7, 9, 11, and 13). These students should read the additional course outline for ECON2132/ECON8034 for more detail.

*Assignment*

The assignment consists in a research paper of 2500 words maximum. The aim of the research paper is for students to choose an area of interest to them, to explore the existing literature on that area and draw some conclusions. Details about what is expected from this exercise, the due date and suggested topics are provided in a separate document.

*Final exam*

The final exam will consist of 6 questions to be answered in 3 hours. The questions will vary in complexity with 50% of the exam devoted to basic questions, aimed at determining whether the student should pass the unit, and then questions of increasing complexity, aimed at determining which students deserve credit, distinction or high distinction. You will have access to previous final exam papers through WebCT.<sup>2</sup>

*Final mark*

The final mark in this unit will be based on the performance in:

- Assignment 25%
- Final exam 75%

**Topics**

1. The public sector in a mixed economy
2. The economic rationale of government
3. Welfare economics: efficiency and equity
4. Cost-benefit analysis
5. Public goods and publicly provided private goods
6. Externalities
7. Education and health care
8. Social insurance and income maintenance
9. Introduction to taxation and tax incidence
10. Taxation and economic efficiency
11. Optimal taxation
12. Fiscal federalism
13. Australian tax policy

**Prescribed textbook**

Rosen, H. and Gayer, T. (2008), *Public Finance* (8<sup>th</sup> edition), McGraw-Hill.

**Recommended textbooks**

For public economics:

Abelson, P. (2008), *Public economics: principles and practice*, Mc-Graw Hill Education.

Connolly, S. and Munro, A. (1999), *The Economics of the Public Sector*, Prentice Hall Europe.

Stiglitz, J.E. (2000), *The Economics of the Public Sector* (3<sup>rd</sup> edition), W. W. Norton.

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<sup>2</sup> Students should bear in mind that previous to 2005 choice was allowed (answer 6 out of 8, for instance) whereas from 2005 there is no choice (students have to answer all questions). In this sense the 2005 to 2008 exams are the best guide. Note I did not teach this unit in 2007.

For mathematical techniques:

Sydsaeter, K. and Hammond, P. (2006), *Essential Mathematics for Economic Analysis*, Prentice Hall (Pubs).

Your existing microeconomics text will also be useful for some topics.

### **Notes about handouts and references**

- Handouts, in the form of brief PowerPoint presentations, will be provided each week. Occasionally, more detailed documents will be provided for topics for which this is deemed necessary. All these documents will be available on WebCT.
- Students should note that the PowerPoint handouts are to be regarded as a guide to the referenced material. References to further reading are given in the last page of each handout for students to complement the handout. Students are highly encouraged to consult these references.
- Prescribed and recommended texts will be placed on the Reserve Collection, usually on 2-day loan. A text on mathematical techniques has been included for those who might need it. It is the policy of the library to place texts on 2-day loan by default unless a high utilization rate is observed. If there is high demand for a text, it is automatically transferred to the 2-hour loan. This means that students should preferably seek these references well in advance in order to facilitate the efficient use of resources. There is a link to the Reserve Collection in WebCT.