

Public Sector Economics (Spring 2011)

Instructor:

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Course Objectives and Aims:

The aims of this course are to introduce students basic concepts of public sector economics, particularly paying more attention to the role of the public sector in the market economy in the context of microeconomics. This course could thus be considered as an opportunity to apply microeconomics for several practical issues related to the public sector, and students would realize how much their understanding of microeconomics helps them evaluate many issues related to the public sector in practice. Issues related to macroeconomics such as macroeconomic public policy, government deficits, social security, economic growth, and intergenerational transfer/tax programs will be covered in Public Finance taught in the autumn term, and the public sector will be discussed in the context of microeconomics in this course.

This course will begin with the review of the fundamental concept of microeconomics, and will then discuss public sector specific issues by relating them to the fundamental microeconomics concept. The course will cover topics such as economic efficiency, public expenditure, and taxation, and will also try to develop students' ability to evaluate the public policy in welfare. Notice that a strong message of this course is that the market achieves the best result under ideal circumstances and also that the ideal circumstances are sometimes very unlikely to hold in practice. Then, the public sector can play an important role to compensate for the market failure. This course will provide students answers to the following questions:

- 1) Why/When is the market the best?
- 2) When does the market fail to result in the best situation?
- 3) When/how can the public sector compensate for the market failure?
- 4) How can we evaluate the effect of public sector activities on our society in terms of economics?
- 5) What is the difference in goods provided between by the public sector and by the private sector?
- 6) What happens if a private market does not exist for a particular good?
- 7) Who eventually pays a tax?
- 8) Is taxation good in terms of economic efficiency?

Teaching Methods:

Lectures, exercises and discussion will be given to students.

Prerequisite:

Basic microeconomics

Texts:

Core Text (required):

No core text book is required, since the course will cover several topics. However, the book of Salanie listed below would be very helpful to understand the materials taught in this course. His book is relatively new and concrete, so that you could easily get the essence of this course by referring to his book.

Supplementary Texts:

Salanie, Bernard, *The Economics of Taxation*, MIT Press, 2003, (ISBN: 0-262-19486-4)

Stiglitz, Joseph E., *Economics of the Public Sector: 3rd Edition*, Norton, 2000
(ISBN: 0-393-96651-8)

Myles, Gareth D., *Public Economics*, Cambridge University Press, 1995
(ISBN: 0-521-49721-3 (hard), 0-521-49769-8 (paper))

Boadway, Robin W. and Neil Bruce, *Welfare Economics*, Blackwell, 1984
(ISBN: 0-631-13327-5 (paper))

Further reading materials will be introduced during the course.

Class Schedule:

The chapters in the above books students should read will be referred in advance.

Class 1: Introduction: The Public Sector in a Mixed Economy

Class 2: Welfare Economics I: Why/When is the market the best? (**Market Efficiency**)

Class 3: Welfare Economics II: When does the market fail to result in the best situation and when/how can the public sector compensate for the market failure? (**Market Failure and Public Provision**)

Class 4: Welfare Economics III: How can we evaluate the effect of public sector activities on our society in terms of economics? (**The Measurement of Welfare Change**)

Class 5: Public Expenditure I: What is the difference in goods provided by the public sector and the private sector? (**Public Goods and Publicly Provided Private Goods**)

Class 6: Public Expenditure II: What happens if a private market does not exist for a particular good? (**Externality**)

Class 7: Public Expenditure III: Health Care, Defense, and Education

Class 8: Taxation I: Who eventually pays a tax? (**Tax Incidence**)

Class 9: Taxation II: Is taxation good in terms of economic efficiency? (**Taxation and Economic Efficiency**)

Class 10: Taxation III: Several Taxes

Evaluation:

Two written exams (midterm and final) only.