Part IIB Paper 7 Public Economics

Paper content

Public economics examines the expenditure and revenue-raising choices made by governments, analysing the choice of optimal policies according to differing objectives, as well as the empirical considerations that should inform these choices.

Aims

The aims of the paper are to show students how to use microeconomic theory and empirical evidence to address policy questions, such as the optimal structure of the income tax and benefit system and how governments should deal with environmental problems. The paper builds on the microeconomics paper in Part IIA, and is complementary to the microeconomics paper in part IIB.

Objectives

Students should acquire a good understanding of the relevant theoretical models and arguments (e.g., models of optimal taxes and benefits, models of environmental policy design) and be able to use these models to address applied policy questions. Alongside this, they should develop their practical understanding of techniques for understanding causal interactions among policy-relevant economic variables. It is important that students understand the general principles underlying different policy models, that they are able to apply these principles to a range of questions, and that they are able to critically evaluate relevant empirical evidence. Students should have acquired knowledge of the tax and benefit structure in a range of OECD countries.

Lecture Courses

Policy Evaluation

This course consists of 8 lectures on the way economics can be used to evaluate policies. This is not an econometric theory course, nor an economic theory course. It is about understanding how to estimate and interpret causal effects in real world applications – both in experimental settings and with observational data. The focus is on applications in applied microeconomics.

Environmental Regulation

The purpose of these lectures is to examine normative and positive aspects of environmental regulation. This includes a discussion of the properties of different environmental instruments such as green taxes, tradable emission permits, and control and command regulation. Some attention will be given to international environmental problems, such as the CO_2 problem. The emphasis of the lectures is on the theoretical foundation of environmental regulation with some reference to contemporary issues in the policy debate.

Topics in Public Economics This 'principles' course provides foundations for thinking about normative and positive aspects of public economics and public finance. The course covers materials such as optimal taxation: how to raise revenue and redistribute income at minimum efficiency cost, and how to use the tax system to provide social insurance. Substantial attention is first given to the design of 'static' optimal labour income taxes (the Mirrlees model), in part because of the importance of this topic *per se*, but also because of the more general economic lessons that this model provides. The course also considers questions relating to taxation, social security and social insurance, among other related topics.

Main course texts (preliminary)

Turner, R.K., Pearce, D., and Bateman, I. (1994), *Environmental Economics – An Elementary Introduction*, Harvester Wheatsheaf

Angrist, J. and J-S Pischke (2009), *Mostly Harmless Econometrics: An Empiricist's Companion*, Princeton University Press

Anthony B. Atkinson and Joseph E. Stiglitz, *Lectures on Public Economics: Updated Edition. 2015*

Stiglitz, J.E. and Rosengard, J (2015), Economics of the Public Sector (4th ed.), Norton

Piketty, Thomas, and Emmanuel Saez. "Optimal labor income taxation." Handbook of public economics. Vol. 5. Elsevier, 2013. 391-474.

Supervision

A proposed supervision programme is available from the paper web-page. Seven suggested supervision assignments will be available from the course web-page. The Faculty offers supervisions for three of the seven topics but students and their DOS must ensure that they are signed up.

Examination

To be confirmed and approved by the faculty board.