

Part IIB Paper 7 Public Economics

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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. The guest lectures provided by the Institute for Fiscal Studies are designed to facilitate this.

Lecture Courses

Topics in public finance (Dr C. Brendon, 16 hrs, Weeks 1-8, Michaelmas Term) This 'principles' course provides foundations for thinking about normative and positive aspects of public finance, with a particular (but not exclusive) focus on redistributive taxation. The principal focus is on questions of 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 then considers questions relating to taxation and social security over time: whether and how savings should be taxed, and how intergenerational trade-offs can best be resolved through pension systems.

Topics in Applied Public Economics (staff members of the Institute for Fiscal Studies, 8 lectures, Weeks 1-8, Michaelmas Term)

Each lecture will be delivered by a different staff member of the IFS, and will consist of a one hour lecture on a topic on which the IFS has recently worked, such as corporation tax, labour supply, and pension policy, followed by questions and discussion. This material is examinable and will help the student acquire the needed institutional knowledge of tax and benefits structures.

Policy Evaluation (Dr W. Zhang, 8 lectures, weeks 1-4, Lent Term)

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 (Dr T. Aidt, 8 lectures, weeks 5-8, Lent Term)

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 CO2 problem. The emphasis of the lectures is on the theoretical foundation of environmental regulation with some reference to contemporary issues in the policy debate.

Preliminary readings/Main course texts

Hindriks, J. and G.D. Myles (2013), *Intermediate Public Economics* (2nd ed.), MIT Press.

Sen, A.K. (1999), 'The Possibility of Social Choice', *American Economic Review*

Stiglitz, J.E. (2000), *Economics of the Public Sector* (3rd ed.), Norton

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

Supervision

Supervisions are arranged by Director of Studies. A proposed supervision programme is available from the paper web-page. Eight suggested supervision assignments will be available from the course web-page. Sample answers are available for potential supervisors from the Directors of Studies section of the Faculty website. The Faculty offers supervisions for four of the eight topics but students and their DOS must ensure that they are signed up.

Examination

The examination paper consists of 8 unsectioned questions. The students are asked to answer 4 of these. Past exam papers are available at the Faculty web-page.