

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, alternative approaches to public goods provision) and be able to use these models to address policy questions. It is important that students understand the general principles underlying these different 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

Social Choice (Dr C. Brendon, 4 hrs, Weeks 1-2, Michaelmas Term) This course provides foundations for thinking about social choice in environments with non-trivial disagreements across individuals. Since these environments are the norm for public economic questions, it provides an initial opportunity to reflect on the appropriate way to proceed. Topics include a recap of Arrow's Theorem and related results, the use of cardinal utility information and comparability, and the link between the social welfare objective and informational asymmetries.

Optimal Tax Theory (Dr C. Brendon, 16 hrs, Week 3 Michaelmas Term - Week 2 Lent Term) This course addresses the questions of how to raise revenue and redistribute income at minimum efficiency cost and how to use the tax system to provide social insurance. The

focus is on the design of optimal non-linear income taxes (the Mirrlees optimal income tax model), interaction between commodity and income taxation, social insurance, capital taxation, in-work benefits and pensions.

Public Goods (Dr C. Brendon, 4 hrs, Weeks 3-4, Lent Term) This short course considers alternative forms of public goods, and mechanisms to ensure a desirable level of provision. Topics include the Clarke-Groves mechanism, global vs local public goods, and the Tiebout Hypothesis.

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.

Environmental Regulation (Dr M Amior, 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 reading

Cullis, J. and Jones, P. (2009), *Public finance and public choice*, 3rd Edition. Oxford University Press, Oxford, UK. [ML 27 E 45b]

Hillman, A.L. (2003), *Public Finance and Public Policy, Responsibilities and Limitations of government*, Cambridge University Press, Cambridge, UK. [ML 29 E 42]

*Hindriks, J. and G.D. Myles, 2006. *Intermediate Public Economics*, MIT Press.

Mueller, D. (2003), *Public Choice III*, Cambridge, Cambridge University Press, Cambridge, UK [ML 27 E 35c]

Sen, A.K. , 'The Possibility of Social Choice', *American Economic Review* 89.3 (1999): 349-78

Stiglitz, J.E. (2000), *Economics of the Public Sector*, 3rd Edition. W. W. Norton, New York [ML 30 A 37c]

Turner, R.K., Pearce, D., and Bateman, I. (1994), *Environmental Economics – An Elementary Introduction*, Harvester Wheatsheaf, New York [ML 1 A 8(4)]

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