

Master Advanced Module: Public Economics

Aim of the course:

This course aims at familiarizing students with the economics of the public sector. Governments nowadays play an important role in all western economies. Beneath being in charge for a huge regulatory structure, the public sector makes substantial expenditure. This expenditure is financed mainly by taxes on personal and corporate income, goods and services as well as property, but in parts also by public debt. A not less important purpose of the government is macroeconomic stabilization. This is done by central banking on the one hand, but on the other hand also by fiscal stimulus payments, bailouts, etc., especially in recent years.

In this course we try to answer the question under which circumstances and how the government should intervene in market activities. We therefore analyze what are the prerequisites for markets to deliver Pareto efficient outcomes and discuss what may happen when some of these prerequisites are not fulfilled. In addition we will find out that free market equilibria can generate a substantial amount of inequality, which may not be socially desirable. In such situations, an intervention of the government can improve economic efficiency and/or lead to more equality. Last but not least we discuss the role of debt in financing government expenditure.

Outline:

1. *Theory of the government:*
 - a. Why does the government exist?
 - b. What is its role in the economy?
 - c. When should it intervene in markets?
 - d. What should it spend money on?
2. *(Optimal) Taxation:*
 - a. How do taxes impact individual choices and welfare?
 - b. What are optimal ways of taxation?
 - c. What should the government levy taxes on and what not?
 - d. Should the tax system react to inequality and if yes, how?
3. *Government debt (time permitting):*
 - a. Why is the government debt?
 - b. Should it be there and if yes, what should it be used for?
 - c. Does debt affect households and/or the macroeconomy?
 - d. What if a country decides not to service its debt anymore?

Literature:

1. Hindriks, J. and G.D. Myles (2013): *Intermediate Public Economics*, second edition, MIT Press.
2. Leach, J. (2004): *A Course in Public Economics*, Cambridge University Press.
3. Silvestre, J. (2012): *Public Microeconomics: Efficiency and Equity in Public Policy*, Edward Elgar.
4. Salanié, B. (2012): *The Economics of Taxation*, MIT Press.