ECON0050: The Economics of Public Sector

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Why study the Economics of the Public Sector?

When individuals live in groups or societies, like we all do, they take collective decisions, the so-called social choices. These choices are implemented by governments through public policies. As such, the actions of governments affect everyone in a country.

One fundamental reason to study public policy is for understanding whether we need government intervention in the economy or not. Weren't we told that the competitive market equilibrium is Pareto efficient?

Our daily-life experience is that government policies are prominent in political debates as well as in the news. For example, governments provide goods that the public wants. The public is willing to pay for health, education and pensions. But, as Evan Davis said, why is Sainsbury's so much better at selling food than most of our schools are at teaching children? Hence, another reason to study public economics, is analysing weather governments are efficient. And, if not, why.

Further, government policies can contribute to social equity, in the sense that the less fortunate are helped and supported by the society as a whole. Then, why the gap between and the rich remain high? Or, put in other terms, are redistributive policies effective? Another good reason!

Last but not the least, in these unprecedented times, governments all over the world are rapidly and substantially increasing public spending with the aim of stabilizing their economies after they have been harshly hit by the global pandemic. However, is accumulating debt good? Is that fair for future generations? Would it be better to raise taxes today?

These questions have been in the air for years...centuries, actually. In this module we will hone deeply on each of these questions, using economic analysis.

What will you learn about?

This module will provide you with an understanding of the economics of public goods, public expenditure and public services. You will explore some fundamental questions about the aims and tools of public policy. You will develop the ability to analyse and understand key issues in this field using standard tools of theoretic and empirical economic analysis, corresponding to the level taught in core second-year economics modules.

At the end of the module, you should
- have a knowledge of the dimensions and functions of the public sector in at least one country, and an appreciation of the normative arguments which might define the economic borders of the state;
- have a clear understanding of the economic theory of public goods, and of the problems which arise in making efficient decisions about public goods provision;

- have a clear understanding of the role of redistribution and of incentive problems that arise as a result of redistributive policy;
- understand the economic issues concerning various aspects of the role of the public sector in the provision of education and other public services.

What will you know (better) by the end of the course?

By the end of the course, you will be able to use your economic knowledge to independently critique problems and policy solutions in the public sector, understanding the implications for the wider economy.

The desired learning outcomes are that on completion of the course you are able to:

1. Explain, using economic tools and empirical evidence, why we do have government intervention in the economy, developing the ability to evaluate claims and counterclaims;
2. Independently investigate and critically comment on a range of current debates relating to public policy;
3. Consolidate and deepen your critical thinking abilities, creativity, communication, team working and time management skills via video-making;
4. Write clear and well-structured economic essays for a non-expert audience and critically assess the writing of others.
5. Confidently discuss economic ideas with your peers.

When marking the 3-minute video, the assessed essay and exam answers we will be looking for evidence that students have reached outcomes 1 to 4 in particular. You will meet Outcome 5 if you engage with discussions in lectures and tutorials.

You said we did

This module has proved to be popular with students in the past years. During the term, and from one year to the next, I reflect on student feedback and adjust the course where appropriate. Examples of the past two years' student requests, and how I have managed them, are in Table 1.

Table 1: You said, we did

You said 2018/19	We did 2019/20
Lecture topics are all very interesting, but very theoretical - more discussion of real-world applications or modern literature etc would be interesting	Introduction of Research Toolboxes on public policy, see "Assessment" on Moodle for full details
More analysis of empirical data and the impact and design of real policies using the priviledged link between UCL-Economics and the IFS	Introduction of learning resources developed at IFS

The course was far too abstract (…) it would be more interesting to evaluate the effectiviness of actual public policies	Change of assessment, that is: group videos in public policy and individual essay. The aim of this part of the assessment is to allow students to think as economists and provide an informed evaluation of actual public policies.
Rushing through some of the lecture slides	Introduction of the distinction between lecture slides, the slides we will cover and discuss during live lectures, and topic slides, the slides you will be provided to explore a specific topic in your own study time.
Marked problem sets every week would be useful to complement the essays, such as short-answer questions of the style in the exam	Introduction of a repository of short answer questions in Moodle, entitled "Quizzes/Practice short answer questions". The answers will not be marked but students will be able to see suggested answers and make their own comparisons
You said 2019/20	**We did 2020/21**
More revision questions at the end of each lecture	Introduction of weekly revision quizzes
More questions for practising for exam	Introduction of live discussion forums for discussing exam-type questions and useful topics in general
More editing guidance for the video-assessment	Release of short videos with quick-tips for making and editing videos on a Mac or on a PC. These short videos are available on the Centre for Teaching and Learning Economics (CTaLE) Youtube channel. Check the how to series and enjoy!

How do you learn on this course?
The course is taught using a mix of lectures and tutorials. Students are expected to work independently outside the classroom for an average of 8-10 hours per week. Reading Week is a perfect opportunity to catch-up with literature and to prepare homework for later weeks. Make sure to check your online timetable regularly for changes in teaching rooms.
The weekly program of the module is reported in Table 2.

Table 2: ECON0050, weekly program

UCL Week	Week Commencing	Lecture	Lecture Topic	Tutorial	Tutorial Topic	Deadlines
5	29-Sep		Welcome and get familiar with the Module!			
6	05-Oct	1	Topic 1: Economic explanations for government intervention and public sector growth in market economies			
7	12-Oct	2	Fiscal Stabilisation			
8	19-Oct	3	Collective decision making: majority voting	1	Assignment of the groups/topics for the video; planning a video	
9	26-Oct	4	Public Goods			
10	02-Nov	5	Externalities	2	Make your story flow	
11	09-Nov	Reading week	Reading week	Reading week	Reading week	
12	16-Nov	6	Asymmetric Information	3	Essay writing	
13	23-Nov	7	Poverty, Inequality, Redistributive policies and measurement issues			
14	30-Nov	8	Social security and benefit system			VIDEO SUBMISSION: Friday 4th December, 12:00 noon
15	07-Dec	9	Decentralisation	4	Short answer questions: how to do well	

16	14-Dec	10	Taxation			INDIVIDUAL ESSAY SUBMISSION: Friday 18th December 12:00 noon

Learning

Your learning will be articulated into both live sessions, such as lectures and tutorials, as well as around activities you are free to take at the time that suits you the most. In both cases, I have set weekly activities so that you have to complete the activities on-time and, thus, your degrees of freedom are not infinite, right? More details below.

Pre and post-lecture work

Every week you will be asked to complete an activity before the lecture and to reflect, amend and eventually improve this initial piece of work after the lecture has taken place. This will allow you to **self-assess how your knowledge is building up** and it will also provide with **valuable ideas for discussing and interacting with your classmates and with me**, mainly through discussion forums. Examples of these activities are: revision quizzes, data gathering and analysis, readings from specialized press, self-assessed short answer questions…These activities are not formally assessed but you are strongly encouraged to participate.

Lectures

There are ten two-hour lectures, every Monday at 2:00 p.m. in Term 1. There is also a revision lecture in the Exam term.

The **Monday lectures** will last between one hour and one hour and a half. In the first hour I discuss the formal material of the course. I use some of the time to present ideas and economic models to you in traditional lecture format. The remaining time will be employed for pre-work discussion, Q&As and class discussion in small groups.

All core learning will be made digitally available. I will employ Zoom to provide teaching in presence and hence you will be able to join me through Zoom or to watch the Zoom recordings. Recordings will be available on Moodle. **Attendance will not be taken for lectures.**

I upload lecture materials on Moodle ahead of the lecture, on Thursday at 12:00 noon on the week before the lecture. So, for example, the material for Lecture 2 that is scheduled for Monday 12th October will be uploaded on Thursday 8th October at 12:00 noon. **You are strongly encouraged to review these in advance.** This will ensure that you get the most out of the lecture and enable you to focus your attention on those elements that confused you. I do not work through all the materials provided in lecture. I focus on technical material and overarching big picture messages. You need to cover other material yourself outside the

lecture. I will provide you with some recorded material for models' setup and some selected graphical analyses.

Given the nature of the course and the assessment, **you will learn best by attending lectures.** For accessibility reasons, lecture recordings will be made available weekly. It is important you **use Lecture recordings as a complement and not a substitute for attending.**

Lectures' program can be found in Table 2.

Tutorials

There are 4 one-hour tutorials in Weeks 8,10,12 and 15.

In tutorials, students get hands-on opportunities to develop presentation, reading and essay writing skills. Students work in small groups and present ideas to the wider class group. We do not directly answer homework questions in tutorials but discussions are organised to provide students with many opportunities to improve their communication and team working skills as well as essay writing and their approach to answering short questions.

For the tutorials to work as intended active participation by students is required and students need to prepare in advance for the class discussion. Details of the pre-work required for each tutorial will be on Moodle. You do not submit the work prepared for marking. You should view the discussion in tutorials, and guide answers provided where relevant, as feedback on what you have prepared. You are encouraged to come to office hours during term if you have any questions on the material covered.

Attendance will be monitored and registered in tutorials.

Tutorials sessions will not be recorded. No recordings will be available for tutorial sessions.

Full details on tutorial are reported in Table 2.

Tutorials' logistics

ECON0050 tutorials will happen remotely in Microsoft Teams (MSTeams). During tutorials we will have to have both plenary and small group discussions. In what follows I will provide you with important information with respect to tutorials' logistics.

I have created one distinct Team per Tutorial Group. Hence there will be: ECON0050 TUTA Team; ECON0050 TUTB Team; so on and so forth.

There will also be the possibility to have small group discussions within the same tutorial. In particular, once the groups for the video project have been formed, I will create their virtual counterpart in MSTeams (If you are familiar with MSTeams, this is done creating some channels within the same team). Hence there will be: TUTA_S1; TUTB_S2 (where S stands for Sub-group) so on and so forth. Each of you will be assigned to their Tutorial Subgroup in due course. Note that the above notation (TUTA_S1...etc) will be employed also for the video files submission.

During tutorials will we have plenary discussions in the Tutorial Group General MSTeams and small group discussions in the subgroups channels.

Detailed information on Tutorials can be found in the Module Moodle page at the section "Tutorials".

Assessed Homework

ECON0050 homework is composed by 2 assignments that will count towards your final mark, namely:

1. a 3-minute video. This is group work and it counts 25% of the final mark. Submission deadline, Friday 4th December, 12:00 noon
2. a 1,500 words individual-take home essay. This is individual work and it counts 25% of the final mark. Submission deadline, Friday 18th December 12:00 noon

You must submit all work via Turnitin.

The homework exercises are intended for helping you thinking as an economist for tackling complex real world issues in the field of Public Economics and Public Policy.
Both homework 1 and 2 rely on the very same "research toolbox". With the term "research toolbox" I indicate the essential tools needed to design high-standard research in economics, namely:
a) a real world-fact to explain;
b) an articulated research question aimed at investigating the real-world fact and that could be answered through economic knowledge;
c) sound ideas based on economic analysis and evidence to answer the research question rigorously.

Full instructions as well as detailed information on the tasks, marking criteria, deadlines, logistics and references are reported in the "Assessment" Moodle environment.

Independent study

Students need to read lecture notes and readings weekly to ensure they keep on top of the course material.
Past exam papers are available on Moodle. Students should use these to test their understanding of the course material as the term progresses.
During the course we will practice short answer questions, similar in style to short answer questions in the exam. The intention is to provide students with a vehicle to check their understanding of the main facts and concepts of the course and to provide useful practice for the short answer questions on the exam paper.
Answers to the questions published on Moodle will be released after the relevant topic has been covered in lectures.

Readings

The reading list provides suggestions of textbook chapters that cover the subjects discussed in each of the lectures. You are expected to read the textbook chapters as well as the suggested papers that discuss applied policy research or case studies. Further, you might want to expand your readings independently, starting from the references of the recommended readings and the suggested homework readings. **Demonstrating a beyond the textbook knowledge** as well as the ability to build a well articulated and solid argument drawing from different sources is essential for a

high grade in the exam.

The **principal textbook** for the course is:
- Jean Hindriks and Gareth D Myles "Intermediate Public Economics", MIT Press.

Other textbooks that you may find useful are:
- Sara Connolly and Alistair Munro "Economics of the Public Sector", Prentice Hall Europe
- Joseph E Stiglitz and Jay K. Rosengard "Economics of the Public Sector", 4th Edition, International Student Edition, Norton.

Homework readings
Please check the "Homework" Moodle environment where readings are listed under each Research Toolbox.

Textbook chapters and other readings for each of the lecture topics

Lecture 1.   Introduction and overview
- Hindriks and Myles chapter 5, "Theories of the public sector".
- Stiglitz and Rosengard chapter 1, "The public sector in a mixed economy", chapter 3, "Market efficiency", chapter 4, "Market failure", chapter 10, "The analysis of expenditure policy".
- Connolly and Munro chapter 1 "Introduction" and chapter 2 "Economic rationales for the state".
- Thomas A. Garrett and Russell M. Rhine (2006), " On the Size and Growth of Government", *Federal Reserve Bank of St. Louis Review*, January/February 2006, 88(1), pp.13-30.
  http://research.stlouisfed.org/publications/review/article/5018

Lecture 2: Fiscal Policy and Stabilisation
- Stiglitz and Rosengard chapter 28, "Fiscal Deficits and Government Debt"

- Richard Baldwin, Beatrice Weder di Mauro 18 March 2020, *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes,* full text available: https://voxeu.org/content/mitigating-covid-economic-crisis-act-fast-and-do-whatever-it-takes

- Giavazzi, Francesco, 2014. Notes on Fiscal Policy. MIT OCW https://ocw.mit.edu/courses/economics/14-02-principles-of-macroeconomics-spring-2014/lecture-notes/MIT14_02S14_Fiscal_Policy.pdf

Other optional readings on Lecture 2 can be found in ECON0050 Moodle page

Lecture 3.   Voting as a mechanism for collective choice
- Hindriks and Myles chapter 11, "Voting"
- Stiglitz and Rosengard chapter 7, "Public choice"
- Connolly and Munro chapter 8 "Public choice" and chapter 9 "Government failure"

- Richard A Musgrave and Peggy B Musgrave, *Public Finance in Theory and Practice*, McGraw Hill. Chapter 6 "Public choice and fiscal politics"

Lecture 4.   Public goods, preference revelation
- Hindriks and Myles chapter 6, "Public goods".
- Stiglitz and Rosengard chapter 5, "Public goods and publicly provided private goods".
- Connolly and Munro chapter 4, "Public goods".

Lecture 5.   Externalities and the regulatory role of government
- Hindriks and Myles chapter 8, "Externalities".
- Stiglitz and Rosengard chapter 6, "Externalities and the environment".
- Richard A Musgrave and Peggy B Musgrave, *Public Finance in Theory and Practice*, McGraw Hill. Chapter 35 "Public pricing and environmental policy".

Other suggested readings for Lecture 4:
- Carson, R., (1962) "Silent spring". Houghton Mifflin Harcourt. http://library.uniteddiversity.coop/More_Books_and_Reports/Silent_Spring -Rachel_Carson-1962.pdf
- Heller, W.P. and Starrett, D.A., 1976. "On the nature of externalities". In *Theory and measurement of economic externalities* (pp. 9-27). Ed.: STE- VEN A. Y. LIN. NY: Academic Press, 1976, pp. 9- 22.
- Meade, J.E. (1952) External Economies and Diseconomies in a Competitive Situation. *Economic Journal*. 62: 54-6

Lecture 6.   Imperfect information, insurance and risk.
- Hindriks and Myles chapter 10, "Asymmetric information"
- Connolly and Munro chapter 6, "Asymmetric information".

Lecture 7.   Equity and the public sector.
- Hindriks and Myles chapter 14, "Inequality and poverty".
- Stiglitz and Rosengard chapter 7, "Efficiency and equity"
- Connolly and Munro chapter 14, "Income inequality" and Chapter 15, "Poverty".

Other suggested readings for Lecture 6:
O'Dea, C. and Preston (2010): "The distributional impact of public spending in the UK", IFS Working Paper W12/06.
https://www.ifs.org.uk/wps/wp1206.pdf

Lecture 8.   Equity and public policy.
- Hindriks and Myles chapter 23, "Social security".
- Stiglitz and Rosengard chapter 16, "Social insurance".
- Connolly and Munro chapter 16 "Social insurance and the welfare state", Chapter 17, "Social policy", and Chapter 18, "Pensions and ageing".

Other suggested readings for Lecture 7:
IFS Green Budget, different years. Available at www.ifs.org.uk

Lecture9.   Decentralisation in government.
Hindriks and Myles chapters 7, "Local public goods" and 19, "Fiscal federalism".

Stiglitz and Rosengard chapters 26, "Fiscal federalism" and 27, "State and local taxes and expenditures".

Lecture 10.   Revenue issues.
- Connolly and Munro chapter 11, "Tax incidence and efficiency".
- Richard A Musgrave and Peggy B Musgrave, *Public Finance in Theory and Practice*, McGraw Hill. Chapter 14 "Excess burden and efficiency".

Assessment

Your overall grade for the course is based on your performance in the 3-minute group video, the individual assessed essay and the final exam. A synopsis of assessment is reported in Table 3, full information on Moodle, "Homework" and "Exam Information":

Table 3: assessment information

Assessment component	Type	Weight on overall mark	Submission deadline	Submission	Useful information in Moodle	How to practice and examples
3 minute-video (Homework 1)	Group-work	25%	Friday 4th December at 12:00 noon	Via Turnitin, only one submission per group	Assessment	Why making a video? Check RES and FT links; Tutorial 1 and 2
1,500 words essay (Homework 2)	Individual work	25%	Friday 18th December at 12:00 noon	Via Turnitin, individual submission	Assessment	Tutorials 2 and 3
Final exam	1-hour exam	50%	Not applicable	Not applicable	Exam Information	"Test your knowledge and practice short answer questions" and "Exam information"; Tutorial 5

Homework (50%)
See section above for further details and the "Assessment" Moodle environment for full information.

Final exam (50%)
The 1-hour exam will consist of two parts.
- **Part A**: answer two out of four short questions (worth 50% each of the exam weight, that is 50% of the overall mark)

Exam questions can cover any aspect of the course and are designed to test knowledge of key facts and concepts.

The exam is marked using the Department Grade Descriptors as published in the Department of Economics Undergraduate Handbook. You are expected to provide concise and well-structured answers to the specific question asked. Your answers should be based on economic theories and models from the course, making use of mathematical analysis, diagrams, literature references and discussion. The best essays incorporate empirical evidence and real world examples alongside the economic theory/principles. If you are unsure about how to interpret the marking scheme please discuss with the course lecturer in office hours.

The homework, quizzes on Moodle, lecture activities and tutorial discussions provide a good guide to the exam questions. Further practice questions can be found in previous exam papers. You may discuss your ideas on how to answer these questions in office hours.

If you have doubts or questions, do not hesitate to contact me via email and/or at office hours.

I hope you will enjoy this module!