



University of Glasgow | Business School

CENTRE FOR DEVELOPMENT STUDIES

PUBLIC FINANCE

2010-11

SEMESTER TWO

COURSE COORDINATOR AND LECTURER: Professor Charles Nolan

Total number of teaching hours: 20

Course credits: 20

Course code: LQGS

Brief description and course aim

The course equips students with the necessary knowledge to understand and analyze issues arising in modern public finance. These refer to the scope and limitations of government involvement in the economy and how key issues in the formulation of tax policy. The course establishes some benchmark results on: The nature and role of government intervention in the economy; externalities, public goods and the Coase theorem; the excess burden of tax; the impact of taxation on labour supply, saving and risk, and the inverse elasticities rule for optimal commodity taxation. As such, the course is of relevance to students interested in both developed and developing economies. The background requirement is the knowledge of basic principles of economics, as taught at the undergraduate level, including the standard mathematical and statistical tools expected at that level.

General topics covered

1. Public goods and externalities.
2. The Coase Theorem.
3. Taxation: tax instruments, efficient taxation and social justice.
4. Risk, savings, labour supply and taxation.

Learning outcomes

By the end of the course, students should be able to:

- Identify and analyze the distortive costs of taxation.
- Outline the policy instruments available to the government in order to redress market failures and improve market outcomes.
- Evaluate the effectiveness of these instruments, taking into account their effects on private agents' incentives.
- Analyse the analytics of the government's budget constraint.
- Explain and evaluate the benchmark theories of Ricardian Equivalence and Tax Smoothing.
- Outline and assess new political economy explanations of the post-war increase in government debt and its distribution across economies.
- Utilise the explanations of differing fiscal experiences across economies to improve the design of fiscal institutions.

Course text

A mixture of textbooks and journal articles will be suggested along with lecture notes.

Useful texts are:

Hindriks, Jean and Myles, Gareth D. (2006). *Intermediate Public Economics*; and

Salanie, Bernard (2003). *The Economics of Taxation*.

In addition, slides and notes will be provided. From time to time additional references that may be of use will be given. However, it is also important that you develop your own skills in identifying useful sources that you can draw upon.

Assessment

This is by coursework and final examination. The final examination accounts for 75% of the final assessment and consists of a two-hour written examination, with students being required to answer two questions from a choice of four. Coursework accounts for 25% of the final assessment and consists of one short essay of 2000 words from a choice of two. Topics for essays will be allocated at the beginning of the course, but will generally require students to apply the framework developed in the lectures to developed or developing economies with which they are familiar.

Penalty for lateness

Penalties for late submission of coursework apply. Please refer to the MSc handbook, section 'In-course assessment'.

Lecture outline

Note: The lecture outline breaks down the course into teaching hours e.g. Lecture 2-3 refers to the 2nd and 3rd hours of teaching, even although lectures will take the form of a weekly 2 hour lecture.

The following is a guide to the lectures. In practice, we may deviate a little from this schedule, spending more time on certain topics and less on others, as the need arises.

Lectures 1 and 2

Public policy and the role of government (Theoretical issues).

Key reading: Hindriks and Myles, Chapters 1 and 2.

Lectures 3 and 4

The role of the public sector in modern economies (More practical issues).

Key reading: Hindriks and Myles, Chapters 3 and 4, and Salanie, pp 1-11.

Lectures 5 and 6

Public goods and externalities.

Key reading: Hindriks and Myles, Chapters 5 and 13.

Lectures 7

The excess burden of taxation. Taxation and labour supply

Key reading: Salanie, Chapter 2

Lectures 8 and 9

Taxation and labour supply (income and substitution effects).

Key reading: Salanie, Chapter 2, Atkinson and Stiglitz (Chapter 2).

Additional reading re Slutsky equations: Chiang and Wainwright or Varian (harder), or Mas-Collel, Whinston and Green (hardest).

Lectures 10 to 12

Taxation and savings.

Key reading: Salanie, Chapter 2, Obstfeld and Rogoff, Chapter 1 (pp 28-30; 39-42), Atkinson and Stiglitz, Chapter 3.

Lectures 13 to 15

Risk and taxation.

Key reading: Salanie, Chapter 2, Atkinson and Stiglitz, Chapter 4.

Lectures 16 to 18

Indirect taxation and the inverse elasticities rule.

Key reading: Salanie, Chapter 3, Atkinson and Stiglitz, Chapter 11.

Lectures 19 and 20

Summing up.

Key reading:

Mankiw, Weinzierl and Yagan (2009), and Wolf (2010).

References

Atkinson, Anthony B., and Stiglitz, Joseph E. (1980). *Lectures in Public Economics*.

Chiang, Alpha C. and Wainwright, Kevin (2005). *Fundamental Methods of Mathematical Economics*.

Hindriks, Jean and Myles, Gareth D. (2006). *Intermediate Public Economics*.

Mas-Collel, Andreu, Whinston, Michael D. and Green, Jerry (1995). *Microeconomic Theory*.

Mankiw, N. Gregory, Weinzierl, Matthew and Yagan, Danny (2009). 'Optimal taxation in theory and practice', *Journal of Economic Perspectives*, vol. 23(4), Fall, pp. 147-174.

Obstfeld, Maurice and Rogoff, Kenneth (1996). *Foundations of International Macroeconomics*.

Salanie, Bernard (2003). *The Economics of Taxation*.

Varian, Hal R. (1992). *Microeconomic Analysis*.

Wolf, Martin (2010). 'What is the role of the state?', Financial Times, August:
<http://blogs.ft.com/martin-wolf-exchange/2010/08/08/what-is-the-role-of-the-state/>