

ABSE303 - Public Economics

Course Title	Public Economics			
Course Code	ABSE 303			
Course Type	Business Elective			
Level	BSc (Level 1)			
Year / Semester	7th / Fall			
Teacher's Name	Dr. Petia Tanova			
ECTS	6	Lectures / week	3	Laboratories/week
Course Purpose	<p>The course builds on the principles obtained in the previous modules in Microeconomic analysis. It has as a goal to introduce the students to the various economic decisions of governments in relation to social issues/problems in contemporary times, with the purpose of tackling more efficiently the needs of modern societies. It aims to sharpen students' analytical and methodological skills in confronting market failures and effectiveness of related policies, government regulations and taxation.</p> <p>A major objective of the course is to help students develop systematic, critical and independent thinking of the public sector and the microeconomic policies of the government.</p>			
Learning Outcomes	<p>Upon the successful completion of this course, students will be able to:</p> <ol style="list-style-type: none"> 11. Categorize and examine market failures. 12. Distinguish between functional and social market failures. 13. Estimate the demand for public goods and asses various ways of their provision. 14. Explain and quantify the problem of externalities and to discuss public and private solutions to externalities. 15. Analyze social choices and discuss the effectiveness of social preferences. 16. Establish the foundations of their personal vision of social welfare function and the most adequate model of the market economy. 17. Examine advantages and shortcomings of the natural monopoly and discuss various methods of its regulation. 18. Argue the pros and cons of the institutional monopoly. 19. Identify private and social costs and benefits and apply formal and graphical analysis in their estimation. 20. Identify the goals and the nature of the taxation system and discuss the impact of indirect taxes on resource allocation and the outcomes of direct taxes on motivation and income distribution. 21. Apply graphical analysis to the assessment of tax impact on efficiency and master the techniques of its measurement. 22. Discuss effects and drawbacks of different taxation systems. 			

Prerequisites	ABSE203	Corequisites	None
Course Content	<p>I. <i>Introduction to Public Economics</i></p> <p>Identify the domain of public economics and analytical techniques applied in the study of public economics.</p> <p>Discuss market functions and outcomes from the perspective of the three economics problems: efficiency in allocation, efficiency in motivation and efficiency in distribution.</p> <p>Identify market failures and discuss related problems for the society.</p> <p>Distinguish merit and demerit goods and apply graphical analysis to the study of merit and demerit goods.</p> <p>Debate on the rationale of government intervention and debate different perspectives of the role of government.</p> <p>II. <i>Functional vs. Social Market Failures</i></p> <p>Distinguish between functional and social market failures and analyze the empirical evidence.</p> <p>Classify the functional market failures: public goods, externalities, monopoly and asymmetric information.</p> <p>Compare and contrast public goods and private goods and examine attributes of public goods.</p> <p>Discuss the “tragedy of the commons”.</p> <p>Examine different types of externalities and discuss related problems for the society.</p> <p>Debate private vs. social benefits and costs of externalities.</p> <p>Understand and explain the grounds for asymmetric information.</p> <p>Discuss bounded rationality based on theory and empirical evidence.</p> <p>Identify the moral hazard and adverse selection and examine the evidence in the financial sector.</p> <p>Classify social market failures and debate different approaches to the assessment of social market failures.</p> <p>III. <i>Objectives and Decision Modes. Types of Government Activity</i></p> <p>Identify and classify the economic objectives of the society: efficiency, growth, liberty and equality.</p> <p>Assess economic efficiency and classify different types of efficiency.</p> <p>Examine the measurement of efficiency and its constraints.</p>		

Apply Pareto approach to efficiency assessment and familiarize with the main issues of the welfare economics.

Debate the trade-off of efficiency and equity. Relate the efficiency debate to economic growth.

Explain the meaning of sustainable development and assess empirical evidence.

Familiarize with Sen's theory of development as freedom.

Discuss the interplay between liberty and equality.

Identify different decision modes and types of government activity: markets, price controls, subsidies, taxation, non-price regulations, and public enterprise.

IV. *Public goods and Publicly Provided Private Goods*

Compare and contrast private vs. collective vs commons vs public goods based on their attributes and support the theory with empirical evidence.

Simulate the rational of the production of public goods and discuss examples of public goods.

Examine the demand for public goods and build the demand schedule and the demand curve. Apply formal and graphical analysis to problem solving.

Discuss pros and cons of different methods of the provision of public goods and apply formal and graphical analysis to problem solving.

Examine the efficiency conditions for public goods, and distinguish between public goods and publicly provided private goods.

Analyze pros and cons of subsidies based on theoretical and empirical evidence.

V. *Natural Monopoly and Antimonopoly Policy*

Distinguish between natural and institutional monopoly and derive their types based on theoretical analysis and empirical evidence.

Assess the difference between the concept of monopoly and the market structure of the pure monopoly.

Evaluate the welfare loss of the monopoly and apply formal and graphical analysis to problem solving.

Discuss different methods of regulation of natural monopoly and simulate price controls of natural monopoly.

Examine goals and principles of antimonopoly legislation.

Derive and examine the sources of inefficiency of regulations.

Compare and contrast the antimonopoly policy and the competitive policies of the government based on the EU experience.

	<p>VI. Externalities and the Environment</p> <p>Identify and examine private and social costs and benefits and apply formal and apply formal and graphical analysis in their estimation.</p> <p>Simulate negative externalities and propose possible private and public sector solutions.</p> <p>Discuss the constraints of the protection of the environment.</p> <p>Debate different approaches to the water problem in Cyprus</p> <p>VII. Taxation and Government Redistribution of Income</p> <p>Identify the rational for taxation and examine the principles of taxation.</p> <p>Identify different types of taxes and compare the impact of direct and indirect taxes on efficiency in allocation, motivation and distribution.</p> <p>Apply formal and graphical analysis to estimate the tax incidence.</p> <p>Estimate the costs of taxation in terms of consumer and producer surplus and apply formal and graphical analysis to problem solving.</p> <p>Compare and contrast price controls vs. taxation.</p> <p>Debate the benefits of taxation.</p> <p>VIII. Inequality in income distribution</p> <p>Define income inequality and confront it to wealth inequality.</p> <p>Quantify inequalities: build the Lorenz curve and calculate and interpret Gini coefficient based on empirical evidence.</p> <p>Debate pros and cons of government policies of redistribution of income.</p> <p>IX. The Role of Government and Models of the Market Economy</p> <p>Identify the rational of classification of three models of the market economy: the guided market economy, the self-induced market economy and the social market economy, based on theoretical analysis and empirical evidence.</p> <p>Simulate the social welfare function and discuss different approaches to its construction.</p> <p>Analyze advantages and shortcomings of the guided market economy and discuss its current crisis based on empirical evidence</p> <p>Assess opportunities and constraints of the self-induced market economy and its success in the 21st century.</p> <p>Examine the potential and controversies of the social market economy and its achievements in the context of the recent economic crisis and the Lisbon Agenda and Europe 2020.</p>
Teaching Methodology	The taught part of course is delivered to the students by means of <i>ex cathedra</i> lectures and discussions in class, by means of traditional tools and using computer demonstrations. The instructor relates current events with the

	<p>material presented in the lectures During the lectures students are encouraged to participate in discussions.</p> <p>Some of the key issues are revealed on the basis of simulation games. Role playing and teamwork are incorporated in the simulations.</p> <p>Auditory exercises, where examples regarding matter represented at the lectures, are solved and further questions related to particular open-ended topic issues are compiled by the students and answered, during the lecture or assigned as homework.</p> <p>Topic notes are compiled by students, during the lecture. Lecture notes and slide shows can also be downloaded from the lecturer’s webpage. Tutorial problems are submitted as homework and these are solved during lectures or privately during lecturer’s office hours.</p> <p>Further literature search is encouraged by assigning students to identify a specific problem related to some issue, gather relevant scientific information about how others have addressed the problem and report this information in written or orally.</p> <p>Students’ teams (of two or three individuals) are assigned to study a current economic problem, related to the course subject, and approved by the instructor. The case study is presented in a debate format in class and the audience is required to articulate questions to the team presenting the issue.</p>
Bibliography	<p><u>(a) Textbooks:</u></p> <p>J. E. Stiglitz and J. Rosengard. Economics of the Public Sector. W.W. Norton & Company. Fourth edition.</p> <p><u>(b)References:</u></p> <ul style="list-style-type: none"> • Okun A. Equality and efficiency: the big trade-off. Brookings Institution Press: 1975 • Przeworski A. States and Markets. A primer in Political Economy. Cambridge University Press, 2003 • Stigler G. The Theory of Economic Regulation. Journal of Economics and Management Science 2 (1), 1971. • Barr N. Economic The Economics of the Welfare State. Oxford University Press: 2004 • Conklin D. Comparative Economic Systems: Objectives, decision modes, and the process of choice. Cambridge University Press 1991 • Sen A. Development as freedom. Oxford University Press: 1999. • Tanova P. “Post Crisis Cyprus and Warnings to its Social Model” Science and Business: Development Ways 2018, Vol. 4 (82) • Tanova P. and J. Violaris. Economic and Institutional Reflections on the Greek Crisis. 3rd International Conference: The Economies of Balkan and Eastern Europe Countries in the Changed World • Tanova P. European Austerity Policies’ Constraints and Controversies under the Social Market Economy – the Case of

	Cyprus. 4th International Conference: The Economies of Balkan and Eastern Europe Countries in the Changed World								
Assessment	<p><u>(o) Methods:</u></p> <p>Students are assessed with coursework that involves homework assignments and class participation, two written quizzes, a midterm and a final exam. The assessment involves explaining theoretical concepts, examining real life situations, solving numerical problems and applying graphical analysis.</p> <p>Students are assessed continuously and their knowledge is checked through tests with their assessment weight, date and time being set at the beginning of the semester via the course syllabus.</p> <p>Students are prepared for final exam, by revision on the matter taught, problem solving and concept testing and are trained to be able to deal with time constraints and revision timetable.</p> <p>The final assessment of the students is formative and cumulative and is assured to comply with the subject’s expected learning outcomes and the quality of the course.</p> <p><u>(p) Criteria:</u></p> <p>The assessment criteria can be generalized as follows concerning the area assessed:</p> <ul style="list-style-type: none"> • 86% or more – Excellent application of problem solving skills. • 76%-85% - Very good application of problem solving skills. • 66%-75% - Good application of problem solving skills. • 56%-65% - Satisfactory with some success in applying problem solving skills • 50%-55% -Satisfactory with limited success in applying problem solving skills • Below 50% -Little or no application of problem solving skills. <p>Assessment criteria are available in each written assignment, midterm or in the final exam.</p> <p><u>(c) Weights:</u></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 70%;">Mid-term test</td> <td style="text-align: right;">20%</td> </tr> <tr> <td>Case Study</td> <td style="text-align: right;">10%</td> </tr> <tr> <td>Participation in discussions</td> <td style="text-align: right;">10%</td> </tr> <tr> <td>Final Exam</td> <td style="text-align: right;">60%</td> </tr> </table>	Mid-term test	20%	Case Study	10%	Participation in discussions	10%	Final Exam	60%
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