



**College of Social Sciences**

<b>Course Code and Title:</b> ECN4121/PAF3531– Economics/Public Finance	Public	<b>Course credits:</b> 3
<b>Semester:</b> Fall 2015		<b>Time and Place of the Lecture:</b> Tuesday-Thursday 5:30-6:45pm #203 New Academic Building

<b>Instructor:</b> Gerald Pech	<b>Office phone:</b> 8727 270 4272 /ext.3059
<b>Office:</b> #505 Valikhanov Building	<b>Office hours:</b> Mon 5 pm and by appointment
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**Course Prerequisites:** ECN2103 Microeconomics or GEN1101 Introduction to Economics

**This Course is a Prerequisite for** no other course

**Course Description:**

This course focuses on the role of government in a mixed economy. We develop criteria for evaluating government policies and analyze decision making processes in the public sector. Topics include externalities and public goods, welfare economics, income distribution, political economy and voting mechanism and social insurance programs.

**Learning Objectives**

- To critically assess how institutions support the economic system
- To analyse and explain the links between theories of market efficiency and market failure, on the one hand, and the role of government in the economy, on the other hand.
- To understand problems in collective decision making.
- To become familiar with tools to evaluate government policies

## Intended Learning Outcomes

Students should be able to

- Discuss determinants of economic and political institutions
- Analyse the quality of institutions in relation to the problem of corruption
- Explain the basic ideas of welfare economics.
- Explain properties of voting institutions
- Identify and analyse various kinds of market failure, and whether they justify government intervention in the economy
- Explain the different efficiency conditions and their consequences in the private and public sector
- Describe the tools and problems of cost-benefit analysis.
- Apply economic tools to areas such as climate change and social security
- Compare properties of different taxes

## 5. Indicative assessment scheme

### Assessment:

#### I. Continuous Assessment:

Midterm Exam	30%
Participation	5 %
Term Paper	20 %
Presentation	5%

II. Final Exam: 40%

**Only students who by that time have at least received 30% of the marks available for the entire course are allowed to sit the final exam.**

### Grading Scale

A+	90-100	C+	67-69
A	85-89	C	63-66
A-	80-84	C-	60-62
B+	77-79	D+	57-59
B	73-76	D	53-56
B-	70-72	D-	50-52
		F	0-49

The exams cover what we have done in class. The final exam is cumulative.

### Term paper:

Students may work in groups of up to three. For details, see attached sheet.

### Attendance and behaviour in class:

I will take attendance from time to time, but not according to any pre-arranged schedule. Persistent failure to attend classes may result in zero marks for class participation. No electronic devices may be used in class except for viewing class-related materials.

**Self-Assessment questions and preparation:**

In order to get the most out of the course you should read the textbook chapters in advance and participate in the discussion in the class-room.

The self-assessment questions are designed for practicing problem solving skills and to repeat and deepen the class-room experience. Examples mentioned in class will often be reflected in some self-assessment question. Please attempt to solve all questions.

**Academic Honesty:**

See catalogue. Exams are closed-book. Any attempt at cheating in the exams will result in zero marks for the exam you are sitting. In order to avoid any temptation for cheating, no electronic devices apart from the most basic calculator will be allowed during exams.

A plagiarized term paper carries zero marks. Other measures in accordance with penalty guidelines according to KIMEP catalogue are reserved.

## Course Outline

Topic	Date	Subject	Reading
<b>Part A: Public Economics as the Analysis of Institutions</b>			
1	25.08.- 27.08	Introduction: How Institutions Emerge	Acemoglu/Robinson
2	01.09.- 04.09.	Markets and Efficiency	Varian 1, Rosen 3 Mankiw 2, 4, 5, 7
3	08.09.- 10.09.	Corruption	Svensson
4	15.09.- 17.09.	Corruption	Svensson
<b>Part B: Public Expenditures</b>			
5	22.09.- 24.09.	Political Economy I: Direct Democracy	Rosen 6
6	29.09.- 01.10.	Political Economy I: Direct Democracy Revision Class	Rosen 6
7	06.10.	<b>Midterm Exam</b>	
	08.10.	moves to week 12 (presentations)	
<b>Reading Week</b>			
8	20.10.- 22.10.	Political Economy II: Representative Democracy	Rosen 6
9	27.10.- 29.10.	Public Goods	Rosen 4
10	03.11.- 05.11.	Climate Change Mitigation as a Global Public Good	Nordhaus
<b>Part C: Public Revenue</b>			
11	10.11.- 12.11.	Externalities	Rosen 5
12	17.11.- 19.11.	Student Presentations (110 minutes classes)	
13	24.11.- 26.11.	Health Insurance Taxes and Efficiency	Rosen 9-10 Rosen 15
	01.12.	Public Holiday	
14	03.12.	Tax Incidence in Partial Equilibrium	Rosen 14
15	08.12.- 10.12.	Income Taxes Revision Class	Rosen 16

### Recommended Textbooks:

- Harvey S. Rosen and Ted Gayer, Public Finance, 9<sup>th</sup> ed., McGraw Hill 2010

**Other Sources:**

- Stiglitz, J., Economics of the Public Sector, 3<sup>rd</sup> ed., Norton 2000
- Mankiw, G., Principles of Microeconomics
- Varian, H., Intermediate Microeconomics
- Humphreys, M., Sachs, J., Stiglitz, J., Escaping the Resource Curse
- Svensson, J., Eight Questions about Corruption, Journal of Economic Perspectives 19 (3), 2005: 19-42.
- Acemoglu, D., Robinson, J., The Economic Origins of Dictatorship and Democracy, Cambridge University Press 2006.

Please check the course webpage for other articles and resources for specific chapters.

**Disclaimer:** This syllabus may be subject to pre-announced changes.

## COURSE PAPER

**Procedures:** The papers have to be delivered electronically by 10 November.

Students may work in groups of up to three. Please indicate your interest in a topic by e-mail. There are eight topics.

**Guidelines:** You have to deliver a short essay (minimum 3,000 words, 4,000 for groups of two, 5,000 for groups of three, maximum 6,000 words plus tables, diagrams and reference list). Please consistently use one citation and referencing style (for example, Chicago or APA style). Make sure that you observe the rules of an academic writing style, in particular put sufficient distance between what you are writing and yourself as a writer.

For each topic there is a reading list. Please initially focus on the basic literature and then look at the more specialized papers in the further reading section. Whilst you are free to add any source of interest, make sure that your essay reflects all titles in the reference list for your topic. If you cannot find a title, please ask your professor. I expect you neither to become an expert in econometrics nor in economic theory: if you feel that some of the contents of the papers listed under further reading is difficult, it will be sufficient to grasp the general principle which is stated there.

## **Topics for the Term Papers**

### **Topic 1 Corruption and Economic Performance**

#### **Basic Literature**

Svensson, J., Eight Questions about Corruption, *Journal of Economic Perspectives* 19 (3), 2005: 19-42.

#### **Further Reading**

Aidt, T., Economic Analysis of Corruption: A Survey, *The Economic Journal*, Vol. 113, 2003: F632-F652

Djankov, S., La Porta, R., Lopez-de-Silanes, F., Shleifer, A., The Regulation of Entry, *Quarterly Journal of Economics* 117, 2002: 1-37.

Lambsdorff, J. Graf, *The Institutional Economics of Corruption and Reform. Theory, Evidence and Policy*, Cambridge University Press 2007.

### **Topic 2 Corruption: China versus Russia**

#### **Basic Literature**

Sun, Y., Reform, State, and Corruption: Is Corruption Less Destructive in China than in Russia?, *Journal of Comparative Politics* 32, 1999: 1-20.

#### **Further Reading**

Sonin, K., State Capture and Corruption in Transition Economies, *The New Palgrave of Economics*, 2nd ed., 2008

### **Topic 3 Interest Groups and Lobbying**

#### **Basic Literature**

Hillman, A., *Public Finance and Public Policy*, 2<sup>nd</sup> ed., Cambridge University Press 2009, chapter 2 "Institutions and Governance"

#### **Further Reading**

Campos, N., Giovannioni, F., Lobbying, Corruption and Political Influence, *Public Choice* 131, 2007: 1-21.

Levitt, S., Congressional Campaign Finance Reform, *Journal of Economic Perspectives* 9 (1), 1995: 183-193.

Klein, E., Our Corrupt Politics: It's Not All Money, *New York Review of Books*, 22

March 2012.

## **Topic 4 Is Cooperation in Emission Abatement Possible?**

### **Basic Literature**

Boehringer, C., The Kyoto-Protocol: A Review and Perspectives, Oxford Review of Economic Policy 19, 2003: 451-466

### **Further Reading**

Barrett, S., Climate treaties and the imperative of enforcement, Oxford Review of Economic Policy, Volume 24, Number 2, 2008, pp.239–258

Finus, M., van Ierland, E., Dellink, R., Stability of climate coalitions in a cartel formation game, Economics of Governance 7, 2006: 271–291 (Downloadable)

Nordhaus, W., The Climate Club, New York Review of Books 4 June 2014.

Parry, J., Veung, C., Heine, D., How Much Carbon Pricing is in Countries' Own Interests? The Critical Role of Co-Benefits, IMF Working Paper 14/174, 2014.

## **Topic 5: Carbon Markets**

### **Basic Reading**

Stern, Nicholas. 2007. The Economics of Climate Change: The Stern Review. Cambridge, UK: Cambridge University Press, downloadable from the website of HM-treasury, chapter 14.3.

### **Further Reading**

EDF – IETA, Kazakhstan, The World's Carbon Markets: A Case Study Guide to Emissions Trading, 2013

Newell, R.G., Pizer, W.A., Raimi, D., Carbon Markets 15 Years after Kyoto: Lessons Learned, New Challenges, Journal of Economic Perspectives 27(1), 2013: 123–146.

OECD, Energy Subsidies and Climate Change in Kazakhstan, ENV/EPOC/EAP 2013

## **Topic 6 Public-Private Partnerships**

### **Basic Literature**

Mouraviev, N., What Drives the Employment of Public-Private Partnerships in Kazakhstan and Russia? Value for Money? in: Organizations and Markets in Emerging Economies 3, 2012: 32-57.

### **Further Reading**

Kazakhstan Hopes PPP Will Unblock Roads and Unlock Finance, FT 8 December 2014.

Sadka, E., Public-Private Partnerships: A Public Finance Perspective, IMF Working Paper 06/77, 2006.

Timmis, N. and Davoudi, M., Private finance for public projects running out of road, FT 7 February 2006.

## **Topic 7 Sovereign Wealth Funds**

### **Basic Reading**

Sachs, J., How to Handle the Macroeconomic Effects of Oil Wealth, in: Humphreys, M., Sachs, J., Stiglitz, J., Escaping the Resource Curse: manuscript pages 185-206.

### **Further Reading**

Bernstein, S., Lerner, J., Schoar, A., The Investment Strategies of Sovereign Wealth Funds, *Journal of Economic Perspectives* 27(2), 2013: 219-38.

Humphreys, M., Sandbu, M., Should You Establish a Natural Resource Fund? in: Humphreys, M., Sachs, J., Stiglitz, J., Escaping the Resource Curse, manuscript pages 207-250.

Meggison, W., Fotak, V., Rise of the Fiduciary State: A Survey of Sovereign Wealth Fund Research, *Journal of Economic Surveys* 25, 2015: 733–778.

## **8 Health Reform in the US**

### **Basic Literature**

Rosen, *Public Finance*, 9th ed., 2010, chapters 9-10.

### **Further Reading**

Arrow, K., Uncertainty and the Welfare Economics of Medical Care, *The American Economic Review* 53, 1963: 941-973.

Garber, A.S., Skinner, J., Is American Health Care Uniquely Inefficient? *Journal of Economic Perspectives* 22 (4), 2008: 27–50.

Marcia Angell, Health: The Right Diagnosis and the Wrong Treatment, *New York Review of Books* 23 April 2015.



## **9 Paternalism, Liberalism or Inbetween?**

### **Basic Literature**

Sunstein, C., Thaler, R., Libertarian Paternalism is Not an Oxymoron, University of Chicago Law Review

### **Further Reading**

Cassidy, J., Economics: Which Way for Obama, New York Review of Books, 12 June 2008

Cullis, J., Jones, P., Public Finance and Public Choice, 2<sup>nd</sup> ed., OUP, chapter 3.6: Merit Wants and Merit Goods

Leonhard, C., Book Review: Richard H. Thaler, Cass R. Sunstein, Nudge: Improving decisions about health, wealth, and happiness, Constitutional Political Economy

## **Topic 10 Political Competition**

### **Basic Reading**

Hillman, A., Public Finance and Public Policy, 2<sup>nd</sup> ed., Cambridge University Press 2009, chapter 6.2 "Political Competition"

### **Further Reading**

Calvert, R., Robustness of the Multidimensional Voting Model: Candidate Motivations, Uncertainty, and Convergence. American Journal of Political Science 29, 1985: 69-95.