

THE UNIVERSITY OF
NEW SOUTH WALES



**Australian School of Business
School of Economics**

**ECON3106
Public Finance**

**Course Outline
Semester 2, 2009**

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1 STAFF CONTACT DETAILS

Lecturer-in-charge: Cagri S. Kumru

Room 646, ASB Building

Phone No: 9385 6501

Email: cs.kumru@unsw.edu.au

Consultation Times – Tuesdays 10:00AM to 12:00 Noon (or by appointment)

Consultation Location: To Be Announced

Tutor: Cagri S. Kumru

1.1 Communications with staff

You should feel free to contact me about any academic matter. However, I strongly encourage, for efficiency, all enquiries about the subject material be made at lectures or tutorials or during consultation time. Discussion of course subject material will not be entered into via lengthy emails.

Email correspondence on administrative matters (e.g. advising inability to attend tute) will be responded to within 48 hours, but not over weekends. Please note that the lecturer has no advance notice of the date and time of the final exam.

2 COURSE DETAILS

2.1 Teaching Times and Locations

Lecture: Mon 12:00PM – 2:00PM at Mechanical Eng 303

Please note that there will be Lecture in Week 13.

Tutorial Times and Locations are:

Tuesday 1:00PM – 2:00PM at Law 301

Tuesday 4:00PM – 5:00PM at Law 202

Tuesday 5:00PM – 6:00PM at Law 202

Please note that Tutorials start in Week 1.

2.2 Units of Credit

The course is worth 6 units of credit.

There is no parallel teaching in this course.

2.3 Summary of Course

This course provides:

- An understanding of the underlying economic frameworks appropriate to study social and economic outcomes.
- Knowledge of market failures and the justification for government policy.
- An appreciation of the different market environments in which governments decisions must be made.
- The ability to use a rational approach in the evaluation of government intervention and programs.

2.4 Aims and Relationship to Other Courses

Public Finance examines the role of the public sector in the economy. The subject relies considerably on microeconomic principles and basic economic concepts and tools such as those learned in ECON 1101 Microeconomics 1 are assumed

knowledge. Additional microeconomic tools appropriate for the analysis of public economics will be reviewed in class.

This course is third year option in several undergraduate degrees including the Bachelor of Commerce and Bachelor of Economics degrees. The course is a fundamental course for any student who is interested in public affairs and the role of government in market economies.

2.5 Student Learning Outcomes

On completion of the course, students should be able to:

1. Demonstrate an understanding of the basic economic concepts used in the study of public economics.
2. Apply appropriate economic tools to analyse government behaviour and impact.
3. Describe the major government programs and debates currently surrounding these programs.
4. Construct and present logical economic arguments in the evaluation of current issues in public sector economics.

Graduate Attributes

Course Learning Outcomes	ASB Graduate Attributes
1, 2	Critical thinking and problem solving
3, 4	Communication
3, 4	Teamwork and leadership
1, 2, 3, 4	Social, ethical and global perspectives
1, 2	In-depth engagement with relevant disciplinary knowledge
1, 2, 3, 4	Professional skills

3 LEARNING AND TEACHING ACTIVITIES

3.1 Approach to Learning and Teaching in the Course

The philosophy underpinning this course and its Teaching and Learning Strategies are based on “Guidelines on Learning that Inform Teaching at UNSW. These guidelines may be viewed at: www.guidelinesonlearning.unsw.edu.au. Specifically, the lectures, tutorials and assessment have been designed to appropriately challenge students and support the achievement of the desired learning outcomes. A climate of inquiry and dialogue is encouraged between students and teachers and among students (in and out of class). The lecturers and tutors aim to provide meaningful and timely feedback to students to improve learning outcome.

3.2 Learning Activities and Teaching Strategies

The examinable content of the course is defined by the references given in the Lecture Schedule, the content of Lectures, and the content of the Tutorial Program.

Lectures

The purpose of Lectures is to provide a logical structure for the topics that make up the course; to emphasize the important concepts and methods of each topic, and to provide relevant examples to which the concepts and methods are applied.

Tutorials

Tutorials begin in Week 1 and are an integral part of the subject. Tutorial presentations, discussion questions, and problems will build on the material discussed in class with the lecturer.

Out-of-Class Study

While students may have preferred individual learning strategies, it is important to note that most learning will be achieved outside of class time. Lectures can only provide a structure to assist your study, and tutorial time is limited.

An “ideal” strategy (on which the provision of the course materials is based) might include:

Reading of the relevant chapter(s) of the text and any readings **before the lecture:** This will give you a general idea of the topic area.

Attendance at lectures: Here the context of the topic in the course and the important elements of the topic are identified. The relevance of the topic should be explained.

Attending tutorials and attempting the tutorial questions.

4 ASSESSMENT

4.1 Formal Requirements

In order to pass this course, you must:

achieve a composite mark of at least 50 out of 100; and

make a satisfactory attempt at ALL assessment tasks (see below).

4.2 Assessment Details

Assessment Task	Weighting	Learning Outcomes assessed	ASB Graduate Attributes assessed	Length	Due Date
In-tutorial exams	30% (7.5% each)	1,2,3,4	1,5,6	Last 30 minutes of the tutorial	Weeks 4, 6,8,10
Two homework assignments	10% (5 % each)	1,2,3,4	1,2,4,5,6	5 problems	Weeks 5, 12 (in class)
Final Exam	60%	1,2,3,4	1,2,5,6	2 hours	University Exam Period
	100%				

4.3 In-tutorial exams

There will be four in tutorial exams. Students will have 30 minutes to complete 10 multiple choice questions and 1 problem.¹ The first test will cover materials from weeks 1 and 2; the second test will cover materials from weeks 4, 5, and 6; the third test will cover materials from weeks 7 and 8; and the fourth test will cover materials from weeks 9 and 10.

Students must sit the tutorial exams in the tutorial group to which they have been allocated. No supplementary in-tutorial exams will be offered. Students who do not attend and do not have adequate reason will be awarded a mark of zero.

Documentary evidence for an absence (e.g. medical certificate) must be provided to the Lecturer-in-charge. If approved, the student will have their final mark re-weighted according to the weight of the missed piece of assessment. Regardless, an absence will only be approved for one of the in-tutorial exams.

4.4 Assignment Assessment and Format

There will be 2 homework assignments. Each homework assignment will contain 5 problems. Homework assignments can be downloaded from the course website. Please note that only *randomly chosen two answers* will be graded.

There is no special format for homework assignments. However, answers to problems should be legible if handwritten.

4.5 Assignment Submission Procedure

Homework assignments should be submitted at the beginning of the lecture. Students should keep a copy of all works submitted for assessment and keep returned marked assignments.

4.6 Late Submission of Assignment

Late submission of a homework assignment is not allowed.

4.7 Final Exam Format

A two hour final exam will be given in the University examination period. The final exam will be cumulative (it will cover all the materials taught from WEEK 1 to WEEK 13 in the lectures and tutorial program. The details of the content of the final exam will be provided towards the end of the session and a practice exam will be posted to the website during WEEK 12.

Past exam papers can be useful for students' preparation. As outlined in 3.2 above all material covered in the lectures and tutorial program is examinable.

5 ACADEMIC HONESTY AND PLAGIARISM

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For UNSW's policies, penalties, and information

¹ Please note that the structure of the in-tutorial exams might change. The lecturer will announce any changes in the structure and the content of the exam a week ago both in the classroom and WebCT Vista.

to help you avoid plagiarism see: <http://www.lc.unsw.edu.au/plagiarism/index.html> as well as the guidelines in the online ELISE tutorial for all new UNSW students: <http://info.library.unsw.edu.au/skills/tutorials/InfoSkills/index.htm>.

6 COURSE EVALUATION AND DEVELOPMENT

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATED) Process is one of the ways in which student evaluative feedback is gathered. You are strongly encouraged to take part in the feedback process.

7 STUDENT RESPONSIBILITIES AND CONDUCT

Students are expected to be familiar with and adhere to university policies in relation to class attendance and general conduct and behaviour, including maintaining a safe, respectful environment; and to understand their obligations in relation to workload, assessment and keeping informed.

Information and policies on these topics can be found in the 'A-Z Student Guide': <https://my.unsw.edu.au/student/atoz/ABC.html>. See, especially, information on 'Attendance and Absence', 'Academic Misconduct', 'Assessment Information', 'Examinations', 'Special Consideration', 'Student Responsibilities', 'Workload' and policies such as 'Occupational Health and Safety'.

7.1 Workload

It is expected that you will spend at least **ten hours** per week studying this course. This time should be made up of reading, research, working on exercises and problems, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater. Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

7.2 Attendance

Your regular and punctual attendance at lectures is expected in this course. University regulations indicate that if students attend less than eighty per cent of scheduled classes they may be refused final assessment.

7.3 Special Consideration and Supplementary Examinations

You must submit all assignments and attend all examinations scheduled for your course. You should seek assistance early if you suffer illness or misadventure which affects your course progress. For advice on UNSW policies and procedures for granting special consideration and supplementary exams, see:

'UNSW Policy and Process for Special Consideration':
<https://my.unsw.edu.au/student/atoz/SpecialConsideration.html>

Students should note the following

- Applications for special consideration (including supplementary examinations) must go through UNSW Central administration (within 3 working days of the

assessment to which it refers) – applications will **not** be accepted by teaching staff;

- Applying for special consideration does not automatically mean that you will be granted additional assessment or that you will be awarded an amended result;
- If you are making an application for special consideration (through UNSW Central Administration) please notify your Lecturer in Charge;

Please note that a register of applications for Special Consideration is maintained. History of previous applications for Special Consideration is taken into account when considering each case.

ASB Policy and Process for Special Consideration and Supplementary Exams

In the case of undergraduate students in the ASB, requests for special consideration are determined by a Faculty wide panel. If the Faculty panel grants a special consideration request, this may entitle the student to sit a supplementary examination. In such cases the following procedures will apply:

- Supplementary exams will be scheduled centrally and will be held approximately two weeks after the formal examination period. Actual date will be advised by mid-semester.
- Where a student is granted a supplementary examination as a result of a request for special consideration, the student's original exam (if completed) will not be marked and only the mark achieved in the supplementary examination will count towards the final grade.

The 'ASB Policy and Process for Special Consideration and Supplementary Exams in Undergraduate Courses' is available at:

<http://wwwdocs.fce.unsw.edu.au/fce/current/StudentSuppExamProcedure.pdf> .

Further information for undergraduate students is on the ASB website (see '[Policies and Guidelines for Current Students](#)').

7.4 General Conduct and Behaviour

You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at: www.my.unsw.edu.au

7.5 Occupational Health and Safety

UNSW Policy requires each person to work safely and responsibly, in order to avoid personal injury and to protect the safety of others. For more information, see <https://my.unsw.edu.au/student/atoz/OccupationalHealth.html>.

7.6 Keeping Informed

You should take note of all announcements made in lectures, tutorials or on the course web site. From time to time, the University will send important announcements to your university e-mail address without providing you with a

paper copy. You will be deemed to have received this information. It is also your responsibility to keep the University informed of all changes to your contact details.

8 STUDENT RESOURCES AND SUPPORT

The University and the ASB provide a wide range of support services for students, including:

ASB Education Development Unit (EDU) (www.business.unsw.edu.au/edu)

Academic writing, study skills and maths support specifically for ASB students. Services include workshops, online and printed resources, and individual consultations. EDU Office: Room GO7, Ground Floor, ASB Building (opposite Student Centre); Ph: 9385 5584; Email: edu@unsw.edu.au

UNSW Learning Centre (www.lc.unsw.edu.au)

Academic skills support services, including workshops and resources, for all UNSW students. See website for details.

Library training and search support services: <http://info.library.unsw.edu.au>

UNSW IT Service Desk: Technical support for problems logging in to websites, downloading documents etc. Library, Level 2; Ph: 9385 1333.

Website: www.its.unsw.edu.au/support/support_home.html

UNSW Counselling Service (<http://www.counselling.unsw.edu.au>)

Free, confidential service for problems of a personal or academic nature; and workshops on study issues such as 'Coping With Stress' and 'Procrastination'.

Office: Level 2, Quadrangle East Wing; Ph: 9385 5418

Student Equity & Disabilities Unit <http://www.studentequity.unsw.edu.au>

Advice regarding equity and diversity issues, and support for students who have a disability or disadvantage that interferes with their learning. Office: Ground Floor, John Goodsell Building; Ph: 9385 4734

9 COURSE RESOURCES

The website for this course is on WebCT Vista.

The textbook for this course is:

Harvey S. Rosen and Ted Gayer, Public Finance, 8th Edition, McGraw-Hill Irwin, New York, NY, 2008.

Copies of Rosen & Grayer are available from the bookstore. A copy will also be available in the library on open reserve.

Students may also find the following textbook useful for some parts of the course: Gruber, Jonathan, Public Finance and Public Policy, Worth Publishers, 2007. A copy will be available in the library on open reserve.

The list of journal articles that might be useful for you to get a deeper understanding of the relevant topic is given in Section 10. You can download the articles from the e-journals option on SIRIUS on the UNSW Library website (<http://info.library.unsw.edu.au/>).

10 LECTURE SCHEDULE

Week 1 – 20 July: Introduction to Public Finance

▪Rosen & Gayer, Chapters 1, 2, 3, and Appendix (pp 540-560); Gruber, Chapters 1-3.

Week 2 – 27 July: Externalities

- Rosen & Gayer, Chapter 5; Gruber, Chapters 5 and 6.
- Bator, F. M. (1958) “The anatomy of market failure,” *Quarterly Journal of Economics*, 72, 351-378.
- Buchanan, J. M. and C. Stubblebine (1962) “Externality,” *Economica*, 29, 371-384.
- Coase, R. H. (1960) “The problem of social cost,” *Journal of Law and Economics*, 3, 1-44.
- Barthold, T. A. (1994) “Issues in the design of environmental excise taxes,” *The Journal of Economic Perspectives*, 8, 133-151.
- Joskow, P. L., R. Schmalensee, and E. M. Bailey (1998) “The market for sulfur dioxide emissions,” *The American Economic Review*, 88, 669-685.

Week 3 – 3 August: CANCELLED

The substitute lecture will be conducted in Week 13.

Week 4 – 10 August: Public Goods

- Rosen & Gayer, Chapter 4; Gruber, Chapter 7.
- Andreoni, J. (1990) “Impure altruism and donations to public goods: a theory of warm-glow giving,” *Economic Journal*, 100, 464-477.
- Bergstrom, T.C., L. Blume, L. and H. Varian (1986) “On the private provision of public goods,” *Journal of Public Economics* 29, 25-49.
- Samuelson, P.A. (1954) “The pure theory of public expenditure,” *Review of Economics and Statistics*, 36, 387-389.
- Warr, P.G. (1983) “The private provision of a pure public good is independent of the distribution of income,” *Economics Letters*, 13, 207-211.

Week 5 – 17 August: Political Economy

- Rosen & Gayer, Chapter 6; Gruber, Chapter 9.
- Feddersen, T. J. (2004) “Rational choice theory and the paradox of not voting,” *Journal of Economic Perspectives*, 18, 99-112.
- Shachar R. and B. Nalebuff (1999) “Follow the leader: theory and evidence on political participation,” *American Economic Review*, 89, 525-547.
- Stiglitz, J. (1998) “Distinguished lecture on economics in government: The private uses of public interests: Incentives and institutions,” *The Journal of Economic Perspectives*, 12, 3-22.

Week 6 – 24 August: Cost-Benefit Analysis

- Rosen & Gayer, Chapter 8 and Appendix (pp 175-177); Gruber, Chapter 8

Week 7 – 31 August: Health Insurance

- Rosen & Gayer, Chapters 9 and 10; Gruber, Chapters, 15 and 16.

Week 8 – 14 September: Welfare Programs

- Rosen & Gayer, Chapters 12 and 13; Gruber, Chapter 17.

Week 9 – 21 September: Social Security & Taxation and Income Distribution

- Rosen & Gayer, Chapter 11; Gruber, Chapters 13 and 14.
- Rosen & Gayer, Chapter 14; Gruber, Chapters 18 and 19.
- Samuelson, P.A. (1975) “Optimum social security in a life-cycle growth model,” *International Economic Review*, 16, 539-544.
- Galasso, V. and P. Profeta (2004) “Lessons for an aging society: the political

sustainability of social security systems,” *Economic Policy*, 38, 63-115.

- Attanasio, O. and A. Brugiavini (2003) “Social security and households saving,” *Quarterly Journal of Economics*, 118, 1075-1120.
- Attanasio, O. and S. Rohwedder (2003) “Pension wealth and household saving: Evidence from pension reforms in the United Kingdom,” *American Economic Review*, 93, 1499-1521.

Week 10 – 28 September: Taxation and Income Distribution & Taxation and Efficiency

- Rosen & Gayer, Chapter 14; Gruber, Chapters 18 and 19.
- Rosen & Gayer, Chapter 15; Gruber, Chapter 20.

Week 11 – 5 October: PUBLIC HOLIDAY – THERE IS NO LECTURE

Week 12 – 12 October: Optimal Taxation

- Rosen & Gayer, Chapter 16; Gruber, Chapter 20.
- Mirrlees, J. A. (1971) “An exploration in the theory of optimum income tax,” *Review of Economic Studies*, 38, 175-208.

Week 13 – 19 October: How Do Taxes Affect Individual Behaviours? & Deficit Finance

- Rosen & Gayer, Chapters 18 and 20; Gruber, Chapters 21 and 22.
- Feldstein, M. (1995) “The effect of marginal tax rates on taxable income: a panel study of the 1986 tax reform act,” *Journal of Political Economy*, 103, 551-572.
- Myles, G. D. (2000) “On the optimal marginal rate of income tax,” *Economics Letters*, 66, 113-119.

11 TUTORIAL SCHEDULE

Week 1 – 21 July: Introduction to Public Finance

Week 2 – 28 July: Externalities

Week 3 – 4 August: CANCELLED. The substitute tutorial will be conducted in Week 1.

Week 4 – 11 August: Public Goods & In-tutorial exam

Week 5 – 18 August: Political Economy

Week 6 – 25 August: Cost- Benefit Analysis & In-tutorial exam

Week 7 – 1 September: Health Insurance

Week 8 – 15 September: Welfare Programs & In-tutorial exam

Week 9 – 22 September: Social Security

Week 10 – 29 September: Taxation and Income Distribution & In-tutorial exam

Week 11 – 6 October: Taxation and Efficiency

Week 12 – 13 October: Optimal Taxation

Week 13 – 20 October: How Do Taxes Affect Individual Behaviours? & Deficit Finance