

**Public Sector Economics**

Code: 102454  
 ECTS Credits: 6

Degree	Type	Year	Semester
2501572 Business Administration and Management	OT	4	0
2501573 Economics	OB	2	2
2501573 Economics	OB	3	2

**Contact**

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**Use of languages**

Principal working language: catalan (cat)  
 Some groups entirely in English: Yes  
 Some groups entirely in Catalan: Yes  
 Some groups entirely in Spanish: Yes

**Prerequisites**

A basic microeconomic theory course, e.g, Microeconomics I, is a prerequisite to register for this Public Sector Economics course.

**Objectives and Contextualisation**

This course is a standard introduction to Public Sector Economics. Public Finance, or equivalently Public Economics, is the study of the effects of government actions on economic activity. The course thus aims at predicting the effects of such actions in order to provide guidance on the choice between different alternatives. The objective is to provide a toolbox with which to approach in a rigorous way a variety of issues related to the design and evaluation of public policy.

**Skills**

**Business Administration and Management**

- Capacity for adapting to changing environments.
- Capacity for oral and written communication in Catalan, Spanish and English, which enables synthesis and oral and written presentation of the work carried out.
- Demonstrate initiative and work individually when the situation requires it.
- Demonstrate knowledge of the structure of institutions and the state, their evolution and the consequences of possible changes, to be able to make a positive contribution to the debate about the role they play in current society.
- Organise the work in terms of good time management, organisation and planning.
- Select and generate the information necessary for each problem, analyse it and take decisions based on that information.

**Economics**

- Demonstrate initiative and work individually when the situation requires it.
- Demonstrate understanding of the concepts related to welfare economics and the role of the public sector.

- Organise the work in terms of good time management, organisation and planning.
- Select and generate the information necessary for each problem, analyse it and take decisions based on that information.
- Understand the motivation for and the sense of public policies.

## Learning outcomes

1. A capacity of oral and written communication in Catalan, Spanish and English, which allows them to summarise and present the work conducted both orally and in writing.
2. Analyse economic facts and decisions about efficiency and equity.
3. Analyse public policies.
4. Analyse the incidence of taxation.
5. Analyse the role of international institutions in the economy.
6. Assess the main social expenditure programmes and their effects on economic growth.
7. Capacity to adapt to changing environments.
8. Demonstrate initiative and work independently when required.
9. Examine the influence and the role of Spanish public institutions in the economy.
10. Identify the institutions and organisms through which public intervention and regulation of the economy take place.
11. Interpret the functions of public funds.
12. Organise work, in terms of good time management and organisation and planning.
13. Select and generate the information needed for each problem, analyse it and make decisions based on this information.

## Content

### 1. INTRODUCTION

The public sector as an economic agent. The nature of the economic effects of public policy: allocation, distribution and stabilization. Positive versus normative analyses. Criteria for evaluating public policy: economic efficiency, equity, paternalism and individual freedom. Trade-offs among objectives.

### 2. THE PUBLIC SECTOR IN SPAIN

Agents and activities of the public sector. Indices of public sector dimension. The budget of the public sector in Spain: Presupuestos Generales del Estado. Budget concepts and processes. Indices of budget policy.

### 3. WELFARE ECONOMICS AND THE ROLE OF PUBLIC SECTOR

The Fundamental Theorems of Welfare Economics. Market failure as a rationale for public intervention: public goods, externalities, increasing returns to scale, incomplete information, non-existence of markets, unemployment and inflation. Normative theories of the State and redistribution.

### 4. INCOME REDISTRIBUTION

Separating allocation and redistribution issues. Rationales for income redistribution: the utilitarian approach, the maximin criterion, Pareto-optimal redistribution, non-individualistic views, fair processes, social mobility. Conceptual problems with measuring equity. The incidence of public spending. Cash and in-kind transfers. The limits to redistribution: efficiency, equity and incentive-compatibility.

### 5. EXTERNALITIES

The nature of externalities. Positive and negative externalities. Technological and pecuniary externalities. Mechanisms for internalizing externalities: Pigouvian taxes and subsidies, pollution permits, establishing property rights, regulation. The Coase theorem. Externalities and non-convexities. Marginal and inframarginal externalities. Implications for income distribution.

### 6. PUBLIC GOODS

Public or collective goods and private goods: non-rivalry and non-excludability. Efficient provision of public goods. The "free-rider" problem. Wicksell's unanimity rule and Lindahl prices. Efficiency in collective consumption of private goods.

## 7. NATURAL MONOPOLY AND IMPERFECT COMPETITION

Imperfect competition and monopoly. Efficiency effects and potential welfare gains. Decreasing average costs, public utilities and natural monopoly. Efficiency, equity and profitability as objectives for public sector pricing. Asymmetric information and regulation.

## 8. COLLECTIVE CHOICE AND PUBLIC SECTOR BEHAVIOUR

The problem of collective choice. Arrow's (im)possibility theorem. Consequences and alternatives. Majority rule and public goods provision. The median voter theorem. Unidimensional and multidimensional issues. Logrolling. Preference revelation mechanisms for public goods. Direct democracy and representative democracy. The "cast of characters" in the public sector. The role of political representatives. Organization and Incentives in the public sector: from the models of bureaucracy of Niskanen and Migué-Bélanger to the modern theories about the structure and behaviour of agencies. Pressure groups. The theory of government failure.

## 9. EFFICIENCY IN THE PUBLIC SECTOR

An approach to productive efficiency: technical and allocative efficiency. The analysis of public efficiency. Evaluating efficiency in the public production of goods and services: Cost-Benefit Analysis and Cost-Effectiveness Analysis. Input- and output-oriented measures of technical efficiency. Frontier analysis and Data Envelopment Analysis. The design of institutions for efficiency control in the public sector.

## 10. COST-BENEFIT ANALYSIS

Cost-Benefit Analysis as applied Welfare Economics. Criteria for project appraisal. Identifying and quantifying the effects of public projects. Valuing social costs and benefits. Market prices, shadow prices and intangibles. The choice of the social discount rate. The role of distributional considerations. Risk and uncertainty.

## 11. SOCIAL SECURITY

The social security pension system. The case for the existence of a pension system. Two different approaches: intertemporal allocation versus intratemporal redistribution. Consequences for institutional design. The operation of a pay-as-you-go and a fully-funded system. Effects on saving and labour-supply. The "bankruptcy" of social security. The reform of social security.

## 12. OTHER EXPENDITURE PROGRAMMES

Unemployment insurance. Health programs. Education policy. Objectives and instruments. Public versus private provision. Failures of private markets for insurance. Moral hazard and adverse selection. Unemployment and social exclusion. Minimum income programmes and redistribution. Poverty traps. Family support programmes

## Methodology

The purpose of the distribution and combination of the formative activities between the headings Autonomous, Directed and Supervised is to optimize the result of each one.

## Activities

Title	Hours	ECTS	Learning outcomes
<b>Type: Directed</b>			
Lectures	50	2	2, 4, 6, 3, 1, 10, 11, 12, 13
<b>Type: Supervised</b>			
Tutorials and essays' supervision	7.5	0.3	2, 4, 6, 3, 1, 10, 8, 11, 12, 13
<b>Type: Autonomous</b>			
Study and collect information	88.5	3.54	2, 4, 6, 3, 1, 10, 8, 11, 13

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## Evaluation

### Calendar of evaluation activities

The dates of the evaluation activities (midterm exams, exercises in the classroom, assignments, ...) will be announced well in advance during the semester.

The date of the final exam is scheduled in the assessment calendar of the Faculty.

*"The dates of evaluation activities cannot be modified, unless there is an exceptional and duly justified reason why an evaluation activity cannot be carried out. In this case, the degree coordinator will contact both the teaching staff and the affected student, and a new date will be scheduled within the same academic period to make up for the missed evaluation activity."* **Section 1 of Article 115. Calendar of evaluation activities (Academic Regulations UAB).** Students of the Faculty of Economics and Business, who in accordance with the previous paragraph need to change an evaluation activity date must process the request by filling out an **Application for exams' reschedule**

[https://eformularis.uab.cat/group/deganat\\_feie/application-for-exams-reschedule](https://eformularis.uab.cat/group/deganat_feie/application-for-exams-reschedule)

A student will be considered "Not evaluable" if he/she has not participated in any of the assessment activities.

### Grade revision process

After all grading activities have ended, students will be informed of the date and way in which the course grades will be published. Students will be also be informed of the procedure, place, date and time of grade revision following University regulations.

### Retake Process

*"To be eligible to participate in the retake process, it is required for students to have been previously been evaluated for at least two thirds of the total evaluation activities of the subject."* **Section 3 of Article 112 ter. The recovery (UAB Academic Regulations).** Additionally, it is required that the student to have achieved **an average grade of the subject between 3.5 and 4.9.**

The date of the retake exam will be posted in the calendar of evaluation activities of the Faculty. Students who take this exam and pass, will get a grade of 5 for the subject. If the student does not pass the retake, the grade will remain unchanged, and hence, student will fail the course.

### Irregularities in evaluation activities

In spite of other disciplinary measures deemed appropriate, and in accordance with current academic regulations, *"in the case that the student makes any irregularity that could lead to a significant variation in the grade of an evaluation activity, it will be graded with a 0, regardless of the disciplinary process that can be instructed. In case of various irregularities occur in the evaluation of the same subject, the final grade of this subject will be 0".* **Section 10 of Article 116. Results of the evaluation. (UAB Academic Regulations).**

## Evaluation activities

Title	Weighting	Hours	ECTS	Learning outcomes
Two written exams and case studies	40%, 40%, 20%	4	0.16	5, 2, 4, 6, 3, 7, 1, 8, 9, 10, 11, 12, 13

## Bibliography

BOADWAY, R.W. and WILDASIN, D.E. (1984), Public Sector Economics, 2nd ed., Boston and Toronto: Little, Brown and Company.

GRUBER, J. (2016), Public Finance and Public Policy, 5th ed., New York: Worth Publishers.

ROSEN, H.S. and GAYER, T. (2014), Public Finance, 10th ed., New York: McGraw Hill.

HINDRIKS, J. and MYLES, G.D. (2013), Intermediate Public Economics, 2nd. ed., Cambridge and London: The MIT Press.

MUSGRAVE, R.A. and MUSGRAVE, P.B. (2004), Public Finance in Theory and Practice, 7th ed, New York: McGraw-Hill

STIGLITZ, J.E. and ROSENGARD, J.K. (2015), Economics of the Public Sector, 4th, New York and London: Norton & Company.