

McGill University

Department of Economics

Public Sector Economics 1(ECON408)

Fall 2020

Instructor Contact Information:

Dr. Lingling Zhang

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Office : LEA434

Office hours: Wednesdays 10:00-10:30 or by appointment

The office hours will be offered through zoom meetings on MyCourses. You may post your questions in our Facebook group where the instructor will respond. All students are encouraged to help your peers to answer the posted questions. Joining the Facebook group is optional.

Regular classes:

Times: Tuesdays and Thursdays 2:35-3:55pm

Room: BURN 1B45

All classes will be offered on-line with a mix of pre-recorded videos and zoom meetings through MyCourses. All the materials will be available on MyCourses.

Teaching Assistant: Carmen Sainz

TA office hours: TBA

All TA office hours and conferences will be offered through zoom meetings on MyCourses.

Textbook:

1. Rosen, Wen, and Snoddon: *Public Finance in Canada* (any edition)

Reference books:

1. David N. Hyman *Public Finance: A Contemporary Application of Theory to Policy*
2. John Leach: *A Course in Public Economics*

Textbooks are all optional. You may find them online. Books are not ordered at McGill bookstore.

Course Overview: This course is designed to provide the fundamental principles and tools for analyzing the role that government plays in the economy. We will analyze government intervention in a market economy and study the impact of government expenditure programs and

taxation systems on the welfare and behavior of its citizens. The course will cover a wide range of issues in public sector economics including efficiency, externalities, public goods, public choices, taxation and asymmetric information, etc. This course will also offer discussing on current policy debates, such as natural resources, global climate change, and taxation.

Supplementary Readings: I will supplement the textbook with several readings from newspapers, magazines or academic journals. Most of these will be available on MyCourses.

Course Evaluation:

Assignments.....	20%
Midterm examination	20%
Written Project	30%
Final examination	30%

Examinations: There will be two exams.

Midterm exam is scheduled on **Oct. 18th, 2020** and it is open-book and take-home exam. You will have 48 hours to finish the exam.

Final exam will be timed open book exam scheduled by the university during the final exam period.

There will be a supplemental examination which will be worth 100% of your final grade.

McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see www.mcgill.ca/students/srr/honest/ for more information).

In accord with McGill University’s Charter of Students’ Rights, students in this course have the right to submit in English or in French any written work that is to be graded.

Assignments: There will be approximately 5 assignments which will be worth of **20%** of your final grade. All the assignments will be posted on MyCourses and should be submitted on MyCourses no later than the deadlines. No tardy assignments will be graded.

Written Project (Term Paper): The due date for submitting the final version of your paper will be at 5:00pm on December 3rd, 2020. Your paper will be worth 25% of your final grade. No exceptions will be made concerning this due date except with the written permission of your department chair.

In your term paper you will investigate an important topic in public sector Economics. Feel free to work in teams (each team should not include more than 5 members).

A proposal including the topic of your term paper and the list of all members in your team should be submitted to me no later than 5:00pm **Oct. 8th, 2020**. The proposal will be **worth 5%** of your final grade. No tardy proposal will be accepted.

The final version of your term paper should not exceed 10 pages and should be double spaced; single sided with 12 point font. Feel free to ask me questions that are not included here. **The project guideline and the grading criteria** will be posted on MyCourses.

Course Outline

Part I The Economics Basics for Government Activity

Section 1. Introduction

1. Introduction to Public Finance in Canada
2. The Economic Roles of Government

Section 2. Welfare Economics

1. Free market and Efficiency
 - a. The first and second fundamental theorem
 - b. Pure exchange economy
2. Government Interventions
 - a. Taxes and subsidies
 - b. Monopoly power

Section 3. Externalities and Government Policies

1. Externalities
 - a. Positive and negative externalities
 - b. Coase theorem
 - c. On-line experiment: The Herd Immunity Game
2. Government Interventions
 - a. Taxes vs. Subsidies
 - b. Case study: Climate Change: Cap and Trade vs. Carbon Tax
 - c. On-line game: The Carbon Trading Game

Section 4. Public Goods

1. Definition

- a. Nonrival and nonexclusive
 - b. Four types of goods
 - c. Market failure
 - d. The Samuelson condition
2. The free rider problem
 3. Tragedy of the commons
 4. On-line experiment: Voluntary contribution to a public good

Section 5. Public Choice

1. Public choice theory
2. Political market place
3. Different voting procedures
 - a. Lindahl equilibrium
 - b. The voting paradox
4. Bureaucratic behavior

Section 6. Tax Theory and Tax Policy

1. Government finance
2. Taxation, prices and efficiency
3. The welfare cost of taxation
4. The optimal taxation

Section 7. Asymmetric Information

1. Adverse selection
2. Moral hazard
3. Preference revelation
4. An on-line experiment

Section 8. Fiscal Federalism

1. The Tiebout Model
2. Interprovincial Fiscally induced migration
3. Optimal Federalism
4. Intergovernmental Grants in Canada