

McGill University

Department of Economics

Public Sector Economics 2 (ECON409)

Winter 2021

Instructor Contact Information:

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Regular classes:

Times: TTH 1:05pm-2:25pm

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.

Textbooks:

Rosen, Wen, and Snoddon: *Public Finance in Canada*

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 cost and benefit analysis for public sectors, Health care in Canada, Employment Insurance, Public pension, social welfare programs and education, etc. Some Macroeconomic aspects of public sector economics will also be discussed, including fiscal and monetary policies, international monetary system, and international credit crisis. 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:

Midterm examination25%

Project25%

Final examination50%

Examinations: There will be two exams.

Midterm exam is open book take home exam. You will have 48 hours to complete the exam and the exam is due at 1:05pm Montreal time on **March 18th, 2021**. **The midterm exam will be released on MyCourses. You must submit your answers on MyCourses no later than the due. No tardy submission will be graded. The midterm exam is optional.**

The final exam will be open book take home 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.

Project (Term Paper): The due date will be at 5:00pm on April 15th, 2021. No exceptions will be made concerning this due date except with the written permission of your department chair. The project paper must be submitted on MyCourses.

In your term paper you will investigate a topic that is covered in this course. 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 on MyCourses no later than 5pm Montreal time **Feb. 26th, 2021**.

The final version of your term paper should not exceed 10 pages and should be double spaced; single sided with 12-point font. **The project guideline and the grading criteria** will be posted on MyCourses.

Course Outline

Cost and Benefit Analysis in a Canadian Context

1. Cost-Benefit Analysis
2. Discounting-Dealing with Time
3. A Review of Microeconomics
4. Assessing Costs and Benefits
 - a. The Measurement of Welfare Change
 - b. Correcting Market Distortions
 - c. Problems in Project Evaluation
 - d. The pricing rules

- e. The Valuation of Intangibles
- 5. Case studies

Public Expenditures in Canada

- 1. Education
 - a. Market failure and the public provision of education
 - b. Income redistribution and education
 - c. Education expenditures in Canada
- 2. Health care
 - a. The Canadian health care system
 - b. Adverse selection in the health insurance market
 - c. Moral hazard and health insurance
 - d. Health care rationing
 - e. Comparing health system around the world
 - f. Challenges and Future Directions
- 3. Employment Insurance
 - a. The history of the Canadian employment insurance system
 - b. Unemployment in Canada
 - c. Adverse selection and moral hazard in EI
 - d. The labor market effects of employment insurance
 - e. The distributional effects of EI
- 4. Public pensions
 - a. Public intervention in the Provision of Retirement incomes
 - b. Effects of public pension on economic behavior
 - c. The old age security program
 - d. The Canada pension plan