

McGill University

Department of Economics

Public Sector Economics 2 (ECON409)

Winter 2024

Instructor Contact Information:

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Hashtag : #mge409

Regular classes:

Times: Tuesdays and Thursdays 10:05am-11:25am

Location: MAASS 217

Office hours: Tuesdays and Thursdays 12:00pm-1:00pm in LEA34

Email Policy: Due to the large number of students enrolled in the courses, it is challenging to respond individually to all emails. To make the most of our communication and to address your queries effectively, please read the following policies carefully:

1. In-Class and Office Hours Queries will be the primary Mode of Communication: I encourage you to ask questions during class time and during my office hours. This approach not only allows for immediate clarification but also benefits other students who may have similar queries.
2. Emails for Class-Wide Concerns will be addressed in Class: Emails that require detailed explanation will be addressed in the subsequent class sessions. This method ensures that everyone receives the same level of understanding and information.

References:

Rosen, Wen, and Snoddon: *Public Finance in Canada* (The book is not available in the McGill bookstore. You may find the book on Amazon.ca.) Any edition of the book is a good reference. The book is optional.

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, environmental assessment, health care in Canada, employment insurance, public pension, social welfare programs and education, etc. This course will also offer discussion on current policy debates, such as natural resources, global climate change, and taxation.

Supplementary Readings: I will supplement the textbook with readings from well-known academic journals. The list of the articles will be available on MyCourses and the full version of the articles will be available in the McGill library.

Course Evaluation:

Participation and attendance.....10%
Midterm examination20%
Project25%
Final examination45%

Examinations: There will be two exams.

The midterm exam is an in-class exam on March 14th, 2024.

The final exam will be IN-PERSON and will be scheduled by McGill 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 13th, 2024. The project paper (one submission per group) must be submitted on MyCourses.

In your term paper you will investigate a topic from the project paper guideline (will be posted on MyCourses). Please work in teams (each team can include up to 8 members). Different teams are allowed to work on the same topic from the guidelines.

A proposal including the topic of your choice and the list of all members in your team should be submitted on MyCourses no later than 5pm Montreal time **Jan. 26th, 2024.**

The final version of your term paper should not exceed 15 pages and should be double spaced; single sided with 12-point font. **The project guideline and the grading criteria** will be available on MyCourses.

Participation and Attendance: Attendance and participation are worth **10%** of your final grade. For those of you who don’t attend classes regularly, **the weight will be shifted to the final exam automatically.**

Preliminary Course Outline

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. Climate Change: Cap and Trade vs. Carbon Tax
 - c. On-line game: The Carbon Trading Game

The Net-Zero Target in 2050

1. Social Cost of Carbon vs. Carbon Pricing
2. The Policy Instruments and Regulations
3. Carbon Leakage and Risk Management
4. Case study: the Oil and Gas Sector in Canada

Cost and Benefit Analysis

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. Environmental Assessment vs. Environmental Risk Assessment

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

Public Choice

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

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