

DEPARTAMENT OF APPLIED ECONOMICS  
UNIVERSITY OF VALENCIA

Syllabus

**INTRODUCTION TO PUBLIC  
ECONOMICS**

DEGREE IN ECONOMICS

Year 2010-2011

Lecturers:

Phd. Amadeo Fuenmayor Fernández

Phd. María Ángeles Tortosa Chuliá

## Syllabus

### **INTRODUCTION TO PUBLIC ECONOMICS**

#### OBJETIVES

Introduction to public economics is the only subject in first cycle that the Unit of Public finance and Fiscal Systems from the Department of Applied Economics at the Valencia University gives in its Studies Plan at the Bachelor of Economics.

In the future at the second cycle the content of this subject will have its continuity with other subjects as PUBLIC ECONOMICS, obligatory subject, and in a set of voluntary subjects as:

- \* Sistema Tributario
- \* Evaluación Económica Pública
- \* Regulación Pública

The objective of this course is to introduce students in the knowledge of those aspects that help them to understand why State is participating in the economy and also show them with the big problems that public sector is facing at present.

In theoretical classes it will be analysed different topics: firstly (unit 1), public sector will be characterized from the economic perspective; the analysis will continue given answers to why public sector is participating in economy (units 2 y 3); also it will be studied some problems relatives to state's activity (unit 4); after that, the regulation action will be treated from the public sector (unit 5), and its evaluation function (unit 6) and finally, the analysis of the size and growth of public sector and how can be understand the national budget and debt (units 7 y 8).

This is an introductory subject, which means that in classes we will not study the topics of each subject in depth. For this reason, it will be interesting to follow the syllabus of future voluntary subjects in the second cycle.

Practical classes will raise examples and practical exercises in relation with units and topics treated in theoretical classes. To resolve these exercises sometimes it will be necessary to use specific references. Students have to read these articles and chapters of books. In fact, the questions of the exam could refer to them.

In practical sessions, students must resolve, at class or at home, individually or by group, the exercises for each unit, under teacher's supervision. The students must give the written answers to the teacher. These questions, and its complementary material, will be provided to students through a practice book and will be available in the web page (<http://pizarra.uv.es>). In class, students will discuss their answers and, if necessary, will review them with the teacher. The written answers and the oral participation will be evaluated and this mark will be added at the exam mark.

Students should fill the form with the personal information required at <http://pizarra.uv.es>, and should upload a file with his/her photograph. Alternatively, they should give a card with his/her personal information. These kind of cards are available at the office of the Department of Applied Economics (Edificio Departamental Oriental, 2nd floor).

Students could come to the tutorial hours of their teacher to comment and resolve their doubts and problems in relation with this subject. Tutorial hours will be given to students at the beginning of the term and it will be exposed at the notice board in the office of Department of Applied Economics. Students can also be informed by teacher's page web and their e-mails:

[Amadeo.Fuenmayor@uv.es](mailto:Amadeo.Fuenmayor@uv.es) and [www.uv.es/~fuenmayo](http://www.uv.es/~fuenmayo)  
[Angeles.tortosa@uv.es](mailto:Angeles.tortosa@uv.es) and [www.uv.es/~tortosa](http://www.uv.es/~tortosa)

## REFERENCES

We have selected a number of specific references for each unit, differentiating between "BASIC REFERENCE TEXTS" and "COMPLEMENTARY REFERENCES".

## ASSESSMENT SYSTEM

Students' assessment will be the result of the practice evaluations during the term and of their written exam at the end of the term.

Teachers practice evaluations will represent the 40% of the total mark. In this mark the teacher will take into account the presence in theory and practice sessions, and also the written answers and oral participation in practical sessions. At the end of the term and before the exam the teacher will publish a list with the marks obtained by each student throughout the classes.

The exam will represent the remain 60% of the total mark, and will enclose questions about the contents of units given in theoretical and practical classes. Nevertheless, to consider this mark, a minimum mark on the exam (4) will be required. If a student fails the exam, the exam mark and the practice evaluation

will be added as well, with a maximum of 4.5.

If a student does not assist to classes, he/she could only have the exam mark. There is no alternative work to balance these classes.

## Introduction to Public Economics, year 2010/2011

THEORY	First term			PRACTICE
	Tuesday		Thursday	
		Week 1	16 Sept.	Subject presentation Unit 1 (Theory)
Unit 1	21 Sept.	Week 1	23 Sept.	Exercises Unit 1
Unit 2	28 Sept.	Week 2	30 Sept.	Exercises Unit 1
Unit 3a	5 Oct.	Week 3	7 Oct.	Exercises Unit 2
-	12 Oct.	Week 4	14 Oct.	Exercises Unit 3a
Unit 3b	19 Oct.	Week 5	21 Oct.	Exercises Unit 3a
Unit 3b	26 Oct.	Week 6	28 Oct.	Exercises Unit 3b
Unit 3c	2 Nov.	Week 7	4 Nov.	Exercises Unit 3c
Unit 4	9 Nov.	Week 8	11 Nov.	Exercises Unit 4
Unit 4	16 Nov.	Week 9	18 Nov.	Exercises Unit 4
Unit 4	23 Nov.	Week 10	25 Nov.	Exercises Unit 4
Unit 5	30 Nov.	Week 11	2 Dec.	Exercises Unit 5
Unit 5	7 Dec.	Week 12	9 Dec.	Exercises Unit 5
Unit 6	14 Dec.	Week 13	16 Dec.	Exercises Unit 6
Unit 6	21 Dec.	Week 14	23 Dec.	Exercises Unit 6

## **UNIT 1: PUBLIC SECTOR: ECONOMIC CHARACTERIZATION**

1. The economic perspective.
2. The problematic field in economics: private sector, public sector and the third sector.
3. Economic characteristics of the public sector.
4. The different levels of the public sector.
5. Economy of the Public sector or Public Economy?

### **BASIC REFERENCES TEXTS:**

OLMEDA, M (1990): "Public sector and national budget: the differentiation among public actions", traslation from "Sector Público y presupuesto del Estado: la diferenciación entre actuaciones públicas", *Palau 14 - Revista Valenciana de Hacienda Pública*, nº 12, págs. 17-41.

### **COMPLEMENTARY REFERENCES:**

COLM, G. (1948) " Why public finance?", *National Tax Journal*, vol. 1, n. 3, pp. 193-206.

GRUBER, J. (2005) *Public Finance and Public Policy*, New York: Worth Publishers, chapter 1. (336.02 GRU)

KAPLOW, L. (2008), *The theory of taxation and public economics*, Princeton: Princeton University Press. (S i336.1 KAP)

MUSGRAVE, R.A. y P.B. MUSGRAVE (1989), *Public Finance in Theory and Practice*, New York: McGraw Hill, Fifth Edition. ([S i336 MUS](#))

ROSEN, H.S. (2005), *Public Finance*, McGraw-Hill/Irwin, New York, Seventh Edition cap. 1. ([S 336.1 ROS](#))

RUIZ HUERTA, J. y LOSCOS FERNÁNDEZ, J.(Dirs.) (2003): *Ejercicios de Hacienda Pública*, McGraw Hill, Madrid, cap.2

### **PRACTICE CLASS:**

- OLMEDA, M (1990): " Public sector and national budget: the differentiation among public actions
- Questions from practice book.

## **UNIT 2: POSIBILITIES AND LIMITATIONS OF PRIVATE**

## **SECTOR: THE THEORY OF MARKET FAILURES**

1. Economic efficiency: the Paretian optimum. Perfect competition as Paretian optimum.
2. Market failure concept. The market failures as a necessary or sufficient condition of public intervention.
3. Types of market failures.

### **BASIC REFERENCE TEXTS**

CULLIS, J.G. y P.R. JONES (1987): *Microeconomics and the Public Economy: A Defense of Leviathan*, Basil Blackwell, Oxford. ([S i330.10 CUL](#))

GRUBER, J. (2005) *Public Finance and Public Policy*, New York: Worth Publishers, chapter 2. (336.02 GRU)

HILLMAN, A.L. (2003), *Public Finance and Public Policy. Responsibilities and limitations of Government*, Cambridge: Cambridge University Press, Chapter 1. (336.02 HIL)

ROSEN, H.S. (2005), *Public Finance*, McGraw-Hill/Irwin, New York, Seventh Edition cap. 3. ([S 336.1 ROS](#))

RUIZ HUERTA, J. y LOSCOS FERNÁNDEZ, J.(Dir.) (2003): *Ejercicios de Hacienda Pública*, McGraw Hill, Madrid, cap.3

### **COMPLEMENTARY REFERENCES**

BATOR, F.M. (1958): "The Anatomy of market failure", *The Quarterly Journal of Economics*, vol. 72, nº3, august, pp. 351-379..

KAPLOW, L. (2008), *The theory of taxation and public economics*, Princeton: Princeton University Press. ([S i336.1 KAP](#))

MUSGRAVE, R.A. (1959): *The theory of public finance*, New York: McGraw-Hill. Cap. I, pp. 3-27 ([S i336.1 MUS](#))

MUSGRAVE, R.A. y P.B. MUSGRAVE (1989), *Public Finance in Theory and Practice*, New York: McGraw Hill, Fifth Edition. ([S i336 MUS](#))

### **PRACTICE CLASS:**

- STIGLITZ
- MISHAN, and KAHN.
- EDGEWORTH'S BOX EXERCISES.
- Questions from practice book.

## UNIT 3:    **MAIN MARKET FAILURES ANALYSIS**

1.    The market externalities.
2.    The public goods.
3.    The merit goods.

### **BASIC REFERENCES TEXTS:**

GRUBER, J. (2005) *Public Finance and Public Policy*, New York: Worth Publishers, chapter 5,6 and 7. (336.02 GRU)

HILLMAN, A.L. (2003), *Public Finance and Public Policy. Responsibilities and limitations of Government*, Cambridge: Cambridge University Press, Chapter 2.1. (336.02 HIL)

ROSEN, H.S. (2005), *Public Finance*, McGraw-Hill/Irwin, New York, Seventh Edition cap. 4 and 5. ([S 336.1 ROS](#))

RUIZ HUERTA, J. y LOSCOS FERNÁNDEZ, J.(Dirs.) (2003): *Ejercicios de Hacienda Pública*, McGraw Hill, Madrid, cap.4.

### **COMPLEMENTARY REFERENCES**

BATINA, R. (2005), *Public goods: theories and evidence*, Berlin: Springer Verlag. (S i330.2 BAT)

BATOR, F.M. (1958): "The Anatomy of market failure", *The Quarterly Journal of Economics*, vol. 72, nº3, august, pp. 351-379.

CULLIS, J.G. y P.R. JONES (1987): *Microeconomics and the Public Economy: A Defense of Leviathan*, Basil Blackwell, Oxford. ([S i330.10 CUL](#))

HODGSON, B. (2004), *The invisible hand and the common good*, Berlin: Springer Verlag, (S i330.8 INV)

KAPLOW, L. (2008), *The theory of taxation and public economics*, Princeton: Princeton University Press. (S i336.1 KAP)

KEMP, S., (2002), *Public goods and private wants: a psychological approach to government spending*, Chettenham: Edward Elgar. (Si 336.5 KEM)

MUSGRAVE, R.A. (1959): *The theory of public finance*, New York: McGraw-Hill. Cap. I, pp. 3-27 ([S i336.1 MUS](#))

MUSGRAVE, R.A. y P.B. MUSGRAVE (1989), *Public Finance in Theory and Practice*, New York: McGraw Hill, , Fifth Edition. ([S i336 MUS](#))

OLMEDA, M.(1984): *Los efectos externos de mercado: un reto al análisis económico convencional*. Promolibro, Valencia. en <http://www.uv.es/~olmedam/>

PESTON, M. **Theory of macroeconomic policy** / M. H. Peston, Philip Allan, Oxford 1982 [HU D1.2/04126](#)

STIGLITZ, JOSEPH E. (2000), *Economics of the Public Sector*, Third Edition, W.W. Norton & Co., New York: (1986 edition: [S i336\(73\) STI](#))

TOUFFUT, J. (2006), *Advancing public goods*, Chettenham: Edwar Elgar, coop. (S i351.71 ADV)

### **PRACTICE CLASS:**

- Questions from practice book.

## **UNIT 4: POSIBILITIES AND LIMITATIONS OF PUBLIC SECTOR**

1. Optimal allocation in the public sector. The concept of Public failures.
2. Failures relative to the formation of social individual preferences.
3. Failures relative to the revelation of social individual preferences.
4. Failures relative to the process of taking public decisions.
5. Failures relative to the execution or the output of public decisions: bureaucrat behavior.

### **BASIC REFERENCE TEXTS**

CULLIS, J.G. y P.R. JONES (1987): *Microeconomics and the Public Economy: A Defense of Leviathan*, Basil Blackwell, Oxford. ([S i330.10 CUL](#)).

CULLIS, J.G. y P.R. JONES (1992): *Public Finance and Public Choice*, MacGraw-Hill, New York, chapter 14: pages 370-391. ([S i336.1 CUL](#))

DOWNS, A., *An economic theory of democracy*, Harper & Row, New York, 1994. ([S i330.1 DOW](#)).

NISKANEN, W. A., "The Peculiar Economics of Bureaucracy," *American Economic Review* 58 (May 1968), pp. 293-305. NISKANEN, W.A., "Bureaucrats and Politicians," *Journal of Law & Economics* 18 (Dec.1975), pp. 617-643.



GRUBER, J. (2005) *Public Finance and Public Policy*, New York: Worth Publishers, chapter 9. (336.02 GRU)

HILLMAN, A.L. (2003), *Public Finance and Public Policy. Responsibilities and limitations of Government*, Cambridge: Cambridge University Press, Chapter 2.2; 3 6.1 and 6.2. (336.02 HIL)

KAPLOW, L. (2008), *The theory of taxation and public economics*, Princeton: Princeton University Press. (S i336.1 KAP)

ROSEN, H.S. (2005), *Public Finance*, McGraw-Hill/Irwin, New York, Seventh Edition cap. 6. ([S 336.1 ROS](#))

WINSTON, C. (2006) *Government failure versus market failure: microeconomics policy research and government performance*. Washington: Brookings Institution Press, (S 338.45)

## **COMPLEMENTARY REFERENCES**

CALLE SAIZ, R. (1986): "Gasto público y eficiencia: una síntesis de los fallos del Sector Público", *Hacienda Pública Española*, nº 100, pp 231-253.

CULLIS, J.G. y P.R. JONES (1987): *Microeconomics and Public Economy: A Defense of Leviathan*, Basil Blackwell, Oxford. ([S i330.10 CUL](#)).

GARCÍA VILLAREJO, A. y SALINAS SÁNCHEZ, J.: *Manual de Hacienda Pública Española*, Tecnos, Madrid, 1994, pp 369-378.

NISKANEN, W.A. *Bureaucracy and public economics*, Edward Elgar, Aldershot, 1994. ([S i35.08 NIS](#)).

PEACOCK, A.T. (1982): "En torno a la anatomía del fracaso de la acción colectiva", *Hacienda Pública Española*, nº 77, pp 314-322.

WOLF, C.W. (1995): *Mercados o gobiernos. Elegir entre alternativas imperfectas*, Instituto de Estudios Fiscales, Madrid.

## **PRACTICE CLASS:**

DOWNS, A., *An economic theory of democracy*, Harper & Row, New York, 1994. ([S i330.1 DOW](#)).

NISKANEN, W.A., "The Peculiar Economics of Bureaucracy," *American Economic Review*

58 (May 1968), pp. 293-305. NISKANEN, W.A., "Bureaucrats and Politicians," *Journal of Law & Economics* 18 (Dec.1975), pp. 617-643.

NISKANEN, W.A. *Bureaucracy and public economics*, Edward Elgar, Aldershot, 1994. ([S i35.08 NIS](#)).

WOLF, C.W.: "A theory of failures out of market", in HAVEMAN, R. H. AND MARGOLIS, J. (eds.) *Public expenditures and policy análisis*, Chicago: Markham Publishing Company, 1971 ([S D 012379](#))

- Practice book based on questions about Downs, Baumol and Oates and Niskanen articles.
- Role of civil power on local budgets through video analysis

<http://www.presupuestosparticipativos.tv>

- Analysis of politicians in USA through the reading and discussion fo Krugman's book called "The conscience of a liberal", chapter number 4. [S 338.1 KRU](#)

## **UNIT 5: PUBLIC REGULATION**

1. Concept of public regulation.
2. Modalities of public regulation.
3. Economic foundations of public regulation.
4. The regulation of natural monopoly.

### **BASIC REFERENCES TETXS**

GRUBER, J. (2005): *Public Finance and Public Policy*, New York: Worth Publishers, chapter 6. (336.02 GRU)

HILLMAN, A.L. (2003), *Public Finance and Public Policy. Responsibilities and limitations of Government*, Cambridge: Cambridge University Press, Chapter 4 and 8.3. (336.02 HIL)

ROSEN, H.S. (2005): *Public Finance*, McGraw-Hill/Irwin, New York, Seventh Edition cap. 3. ([S 336.1 ROS](#))

LASHERAS, Miguel Ángel (1999): *La regulación económica de los servicios públicos*, Barcelona: Ariel

RIVERA URRUTIA, E. (2004): "Teorías de la regulación en la perspectiva de las políticas públicas", *Gestión y política pública*, Volumen XIII, nº 2, pp. 309-372.

### **COMPLEMENTARY REFERENCES:**

VISCUSI, W. Kip; John M. VERNON y Joseph W. HARRINGTON, Jr. (2000): *Economics of Regulation and Antitrust* (3<sup>a</sup> ed.), Cambridge: MIT([S i338.45 VIS](#)).

PELTZMAN, S. (1976): "Toward a more general theory of regulation", *Journal of Law and Economics*, August, pp. 211-240.

STIGLER, G. (1971): "The Theory of Economic Regulation", *Bell Journal of Economics and Management Science*, vol. 2, primavera, pp. 3-21.

### **PRACTICE CLASS:**

- Practice book based on questions about examples of public regulation on different countries from press
- Role of public regulation on present context through video analysis of economic and political crisis:

<http://www.vimeo.com/12066883>

## **UNIT 6: PUBLIC ECONOMIC EVALUATION**

1. Concept and process of public economic evaluation
2. Criteria and methods of economic evaluation.
3. Cost-benefit analysis.

### **BASIC REFERENCE TEXTS**

CULLIS, J.G. y P.R. JONES (1992): *Public finance and Public choice*, MacGraw-Hill, New York, chapter 14: pages 370-391. ([S i336.1 CUL](#)).

DRUMMOND MF, STODDART GL, TORRANCE GW. *Methods for the economic evaluation of health care programmes*. Oxford, England: Oxford University Press; 1987. ([S i614 MET](#)).

GRUBER, J. (2005) *Public Finance and Public Policy*, New York: Worth Publishers, chapter 8. (336.02 GRU)

HILLMAN, A.L. (2003), *Public Finance and Public Policy. Responsibilities and limitations of Government*, Cambridge: Cambridge University Press, Chapter 2.2 (336.02 HIL)

MUSGRAVE, R.A. y P.B. MUSGRAVE (1989), *Public Finance in Theory and Practice*, New York: McGraw Hill, Fifth Edition. ([S i336 MUS](#)).

ROSEN, H.S. (2005), *Public Finance*, McGraw-Hill/Irwin, New York, Seventh Edition cap. 11. ([S 336.1 ROS](#))

### **PRACTICE CLASS:**

- Questions from practice book based on real cases of economic evaluation.

## **UNIT 7: SIZE AND GROWTH OF PUBLIC SECTOR**

1. Public sector Size. Indicators for measuring it.
2. Growth of public sector and public budget.
3. Factors determinants of the growth of public sector.
4. Optimum size of public sector.
5. The Baumol Disease of costs. An alternative explanation.

### **BASIC REFERENCES TEXTS**

BAUMOL, W.J. y W.E. OATES (1972): “La enfermedad de costes de los servicios personales y la calidad de vida”, en Antoni Casahuga (ed.): *Democracia y Economía Política*, Instituto de Estudios Fiscales (Ministerio de Economía y Hacienda), Madrid, 1980, pp 461-484.

CULLIS, J.G. y P.R. JONES (1987): *Microeconomics and the Public Economy: A Defense of Leviathan*, Basil Blackwell, Oxford. ([S i330.10 CUL](#)).

MUSGRAVE, R.A. y P.B. MUSGRAVE (1989), *Public Finance in Theory and Practice*, New York: McGraw Hill, , Fifth Edition. ([S i336 MUS](#)).

HILLMAN, A.L. (2003), *Public Finance and Public Policy. Responsibilities and limitations of Government*, Cambridge: Cambridge University Press, Chapter 9.3. (336.02 HIL)

ROSEN, H.S. (2005), *Public Finance*, McGraw-Hill/Irwin, New York, Seventh Edition cap. 6. ([S 336.1 ROS](#))

### **COMPLEMENTARY REFERENCES**

ALVAREZ RENDUELES, J.R.: “Hacia una teoría positiva del gasto público”, *Hacienda Pública Española*, nº 9/1971, pp 73-101.

COMÍN, F.: *Historia de la Hacienda Pública* (tomo I), Grijalbo, Barcelona, 1996, pp 78-84.

CULLIS, J.G. y P.R. JONES (1987): *Microeconomics and Public Economy: A Defense of Leviathan*, Basil Blackwell, Oxford. ([S i330.10 CUL](#)).

GONZÁLEZ-PÁRAMO, J.M. y J.L. RAYMOND (1988): “Por qué tiende a crecer el gasto público?”, *Papeles de Economía Española*, nº 37.

HERBER, B.P. (1967), *Modern public finance* Richard D. Irwin, Homewood(IL, ([S D 007495](#)).

LÓPEZ CORRAL, A. (1995): “La presión fiscal en España y en la Unión Europea”, *Cuadernos de Actualidad. Hacienda Pública Española*, nº 2/95, pp 41-50.

OLMEDA DÍAZ, M. (1990): “Sector público y presupuesto del Estado: la diferenciación entre actuaciones públicas”, *Palau 14. Revista Valenciana de Hacienda Pública*, nº 12, pp 17-41.

OXLEY, H.; M. MAHER; J.P. MARTIN; G. NICOLETTI y P. ALONSO-GAMO (1992): "El sector público: temas para los noventa", *Revista del Instituto de Estudios Económicos*, nº1/92, pp 19-122.

PEACOCK, A.T. y J. WISEMAN (1967): "El crecimiento del gasto público", en J.F. Corona (comp.), *Lecturas de Hacienda Pública*, Minerva Ediciones, Madrid, 1994, pp 251-264.

UTRILLA DE LA HOZ, A. (1990): “Dimensión y crecimiento del gasto público: teorías y evidencias”, *Hacienda Pública Española*, nº 15, pp 170-189.

### **PRACTICE CLASS:**

BAUMOL, W.J. y W.E. OATES (1972): “La enfermedad de costes de los servicios personales y la calidad de vida”, en Antoni Casahuga (ed.): *Democracia y Economía Política*, Instituto de Estudios Fiscales (Ministerio de Economía y Hacienda), Madrid, 1980, pp 461-484.

DOWNS, A. (1960): “¿Por qué el presupuesto público estatal es demasiado pequeño en una democracia?”, en CASAHUGA, E. (ed.) (1980): *Democracia y Economía Política*, Instituto de Estudios Fiscales, Madrid.

FRANCO, A; GIL, D. and ALVAREZ-DARDET, C., “State size as measured in terms of public spending and world health, 1990-2000”, *Gaceta Sanitaria*, 2005, 19(3): 186-192.

- Questions from practice book.



1 An Introduction to Public Economics 1.1 Public Economics 1.2 Methods 1.3 Analyzing Policy 1.4 Preview 1.5 Scope Further Reading Exercises 2 Equilibrium and Efficiency 2.1 Introduction 2.2 Economic Models 2.3 Competitive Economies. 2.3.1 The Exchange Economy 2.3.2 Production and Exchange 2.4 Efficiency of Competition 2.4.1 Single Consumer 2.4.2 Pareto-Efficiency 2.4.3 Efficiency in an Exchange Economy 2.4.4 Extension to Production 2.5 Lump-Sum Taxation 2.6 Discussion of Assumptions 2.7 Summary Further Reading Exercises. II GOVERNMENT. 3 Public Sector Statistics 3.1 Introduction 3.2 Historical Develop