

POLITICAL ECONOMY AND PUBLIC ECONOMICS

Public Economics B. Cesi

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Office Hours:
by appointment

- **Lectures**

- Classes will be held, building A, on
- **Monday-Tuesday-Wednesday- (11-13).**

- **Attendance**

- Not compulsory, but strongly recommended.

- **Course prerequisites**

- working knowledge of intermediate microeconomics
- some mathematics and knowledge of game theory
- an introductory course in public finance is useful but not necessary.

Course Web Page

- The material for this course will be posted online (included a more detailed syllabus)

<http://economia.uniroma2.it/master-science/eebl/corso/537/>

Exercises

- Exercises will be solved in class during the lessons
- Exercises questions will be downloaded from the course webpage.
 - Some examples of the right answers will be provided on the course webpage, after each lesson.
 - The day for the exercise section will be decided during the course according to the covered material

Final Exam

- The final exam is a three-hour written test of six questions
 - Three from Module 1 (two mathematical exercises, similar to those carried out during the course and one question about the article chosen among those presented in class)
 - Three from Module 2. (See webpage)
 - Within each question there might be a choice of "sub-questions"
 - To pass the exam it is necessary to obtain a mark of **18 in at least four** questions.
 - The mark for the written exam is given by the average mark of the six questions.
- If the student fails (or the mark awarded is not accepted) he/she will need to retake the entire exam at a subsequent call.

Content

This course is composed of two parts:

Module 1

- **Public Economics:** public good and common resources, the principles of optimal taxation on income and commodities, provision of public good (equity and efficiency). Basics of Procurement and Auction Theory.

Module 2 (see webpage)

- **European Public Choice:** public policy formation, political processes and political institutions from a rational choice perspective

Material

The program of the course is divided into **3** main parts:

- **An introduction to the basics of taxation**
 - Basic models of taxation (on demand and supply)
- **Public provision of public goods.**
 - Samuelson's Rule and Lindhal prices.
 - Median income theorem.
 - Vickrey-Clarke-Groves Mechanism

- **Auctions and Procurement**

- What is public procurement
- Competitive procedures
- Auction and scoring rules

- **Tax Models**

- Optimal commodity taxation.
 - a. Commodity taxation in competitive market. Ramsey' rule.
 - b. Commodity taxation with market power.
 - Optimal income taxation.

Main references

- The main text books are in general good enough to cover this part of the program (Gruber, Myles-Hindricks, Myles, Rosen e Gayer). The course basically follows *Intermediate Public Economics* (2006).

Public provision of public goods

- *Intermediate public Economics* (2006), Hindriks & Myles (Ch. 5 1st edition or Ch. 6 2nd edition)
- more challenging but not required for the exam:
- *Advanced Microeconomic Theory* Jehle, Reny
- *The Economics of Taxation*, Salanie, B. (2002), MIT Press
- Further readings:
- Samuelson, Paul A. 1954, "The Pure Theory of Public Expenditure," *Review of Economics and Statistics*, 36, 4: 387-389.
- Samuelson, Paul A., 1955, "Diagrammatic Exposition of a Theory of Public Expenditure," *Review of Economics and Statistics*, 37, 4: 350-35
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Tax Models – Optimal commodity/income taxation.

- *Intermediate Public Economics* (2006), Hindriks & Myles (Ch. 14-15 first-edition or 15-16 2nd edition) (text-book)
- Salanie, B. (2002), *The Economics of Taxation*, MIT Press: there are several simple model of taxation in increasingly less simple set-ups). Commodity (indirect) taxation in Chapter 3. (useful reading)
- The model are highly simplified (but with all the original message intact) versions of the original difficult contribution, Diamond and Mirrlees (AER 1971).
- Further readings:
- Matthew, Weinzierl, and Yagan (2009) “Optimal Taxation in Theory and Practice” *Journal of Economic Perspective*.
- Mirrlees, J.A., (1971), “An Exploration in the Theory of Optimum Income Taxation”, *Review of Economic Studies*, p.175-208
- Mirrlees, J.A. (1976) “Optimal tax theory”, *Journal of Public Economics*, 6, pp.327-358
- Diamond, Peter A., and James A. Mirrlees, 1971, “Optimal Taxation and Public Production I: Production Efficiency,” *American Economic Review*, 61, 1: 8-27.

- Diamond, Peter A., and James A. Mirrlees, 1971, "Optimal Taxation and Public Production II: Tax Rules," *American Economic Review*, 61, 3: 261-278.
- Seade, J. (1982) "On the Sign of the Optimum Marginal Income Tax", *Review of Economic Studies*, 49, pp.637-643
- Tuomala, M. (1984) "On the Optimal Income Taxation", *Journal of Public Economics*, 23, pp.351-366
- Tuomala, M. (1985) "Simplified formulae for optimal linear income taxation", *Scandinavian Journal of Economics*, 87, pp.668-72
- Ebert, U. (1992) "A Reexamination of the Optimal Nonlinear Income Tax", *Journal of Public Economics*, 49, pp.47-73
- Auerbach, Alan J., and James R. Hines, Jr., 2002, "Taxation and Economic Efficiency," Chapter 21, in *Handbook of Public Economics*, volume 3, edited by Alan J. Auerbach and Martin Feldstein (Amsterdam: Elsevier): 1360-1383
- Slemrod, Joel, 1990, "Optimal Taxation and Optimal Tax Systems," *Journal of Economic Perspectives*, 4, 1: 157-178.

Main references

- The course basically follows *Intermediate Public Economics* (2006). Hindriks & Myles (Ch. 5 1st edition or Ch. 6 2nd edition). The chapter indicated from this book are compulsory
- H.R. Varian, *Intermediate Microeconomics* (latest edition), W.W. Norton & Company
- *Handbook of Procurement*. Piga, Dimitri, Spagnolo; Cambridge Press (Part IV chapter 12, Part V ch 14-15, Part III ch 7)
- Other main text books (not compulsory) are in general good enough to cover this part of the program (Gruber, Myles-Hindricks, Myles, Rosen e Gayer).

Optional readings (more challenging)

- *Advanced Microeconomic Theory* Jehle, Reny