

Public Sector Economics

SOPP 5292 – Winter 2022

CEU Vienna

Department of Public Policy

Central European University

No. of credits: 2 US / 4 ECTS

Course e-learning site: [CEU Moodle](#)

Thursday 13:30 – 15:10

Instructor: [Dr. Michael Dorsch](#), Associate Professor

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Office hours: Wednesday 15:00 – 16:00, QS B-403

Teaching assistant: [Klara Kinnl](#), PhD Researcher

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Office hours: Thursday, 15:15 – 16:15 (room TBD) or by appointment

Course description

This course provides an introduction to modern public economics. The course begins with the presentation of the basic set of analytical tools used by economists in treating public economics issues and critically examines the rationale for public (governmental) intervention in competitive markets – to provide public goods, deal with externalities, promote social justice, etc. Once the tools of analysis are presented and the need for a public sector has been established, we evaluate public policy responses to the externality problem within the context of environmental policy. The public choice view of regulation is also introduced, before moving on to public finance issues. We will evaluate the evolution of states' fiscal capacities and then critically examine the efficiency effects of taxation, studying the optimal methods of raising public revenues through taxation and the extent to which such efforts should be centralized or decentralized. Political economy issues will also be considered; while the economist may be quick to point out where public policy can be welfare-enhancing, the implementation of policy must work through the machinery of democracy. Special attention is paid to economic inequality, both as an important determinant of political dynamics and as an outcome of the policy-making process. The course will consider the role of non-institutionalized forms of political participation in influencing public policy outcomes.

Primary learning objectives

1. Strengthen analytical economic skills, covering a range of micro-economic models applied to public economic issues.
2. Critically examine the role of government from an economic point of view.
3. Understand the role of externalities in economic decision-making, in general, and economically analyze the optimal policy responses.
4. Understand how the government raises revenues through taxation to finance public expenditures and how different forms of taxation and expenditure affect individual decision-making.
5. Appreciate how political dynamics shape public policy decision-making.
6. Exposure to some hot research topics in public economics: climate change, economic inequality, fiscal capacity, and political economy.

Primary textbooks

Economics of the Public Sector – International Edition 4, Joseph Stiglitz and Jay Rosengard, 2015 (on reserve at CEU library).

Public Finance – International Edition 5, Harvey Rosen and Ted Gayer, 2008 (on reserve at CEU library).

The Oxford Handbook of Public Choice – Volumes 1 & 2, Roger Congleton, Bernard Grofman and Stefan Voigt, 2019 (on reserve at CEU library).

Advanced Introduction to Public Choice, Randall Holcombe, 2016.

Additional sources

Public Finance and Public Policy – Second Edition, Jonathan Gruber, 2007.

Public Finance and Public Policy – Third Edition, Arye Hillman, 2019.

[The Economy](#), by the CORE project

The Journal of Economic Perspectives

Individual discussion leads

Each student will be responsible for leading at least one class discussion of the further reading materials. Students should anticipate leading a 20 minute discussion and will be evaluated based on their ability to (i) succinctly summarize the chosen paper, (ii) relate the main results of the paper to the day's required reading, and (iii) stimulate discussion on the topic of the day that builds on the reading material that was required of their class peers.

Papers marked with a **[*]** utilize more technical analytical methodologies. Papers marked with **[IE]** use a methodology from impact evaluation. Students enrolled in Impact Evaluation are required to lead a discussion based on an **[IE]** paper.

Case study

We will discuss a case study on the politics of environmental policy. Students will be evaluated based on their displayed understanding of the case and ability to use theoretical tools of economics to analyze the issues of the case. Students will discuss the case study in groups of two or three.

Requirements and evaluation

Case study	February 3	20 %
Presentation	ongoing	20 %
Participation	ongoing	20 %
Final exam	April 4	40 %

Grading scale

93	≤	A	≤	100
86	≤	A –	<	93
79	≤	B +	<	86
72	≤	B	<	79
65	≤	B –	<	72
58	≤	C +	<	65
0	≤	F	<	58

Course outline (subject to change)

01/13: Role, size, and structure of the public sector

Required reading (51 pages):

- Stiglitz, chapter 1 (pages 3 – 24)
- Stiglitz, chapter 2 (pages 26 – 56)

Further reading:

- Stiglitz, chapter 7 (pages 163 – 174)
- Stiglitz, chapter 26 (pages 801 – 829)

01/20: Market failures: private and public solutions

Required reading (31 pages):

- Rosen, chapter 5 (pages 71 – 99 and 99 – 102)

Background Reading:

- Ronald Coase, “[The problem of social cost](#),” *Journal of Law and Economics*, 3: 1 – 44 (1960). [Read pages 1 – 10 and 15 – 19]
- CORE unit 12, [Markets, efficiency and public policy](#) (sections 12.2 and 12.3)

Further reading (1 discussion lead):

- Hunt Allcott, Benjamin B. Lockwood and Dmitry Taubinsky, [Should we tax sugar-sweetened beverages? An overview of theory and evidence.](#)” *Journal of Economic Perspectives*, 33 (3): 202 – 227 (2019). [*****]
- Tatiana A. Homonoff, “[Can small incentives have large effects? The impact of taxes versus bonuses on disposable bag use.](#)” *American Economic Journal: Economic Policy*, 10 (4): 177 – 210 (2018). [**IE**]
- Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action*, Cambridge University Press, chapter 1, pp. 1 – 28 (1990).

01/27: The economics of climate change and markets for pollution allowances

Required reading (40 pages):

- Stiglitz, Joseph E. “[Addressing climate change through price and non-price interventions](#),” *European Economic Review*, 119: 594 – 612 (2019).

Background reading:

- CORE unit 20, [Economics of the environment](#) (sections 20.2, 20.5, 20.6, and 20.9)
- Gruber, chapter 6 (pages 150 – 163)
- Solomon Hsiang and Robert E. Kopp. “[An economist’s guide to climate change science](#).” *Journal of Economic Perspectives*, 32 (4): 3 – 32 (2018).

Further reading (3 discussion leads):

- Julius J. Andersson, “[Carbon taxes and CO₂ emissions: Sweden as a case study](#).” *American Economic Journal: Economic Policy*, 11 (4): 1 – 30 (2019). [IE]
- Hunt Allcott, “[Site selection bias in program evaluation](#),” *The Quarterly Journal of Economics*, 130 (3): 1117 – 1165 (2015). [IE]
- Kenneth Gillingham and James H. Stock. “[The cost of reducing greenhouse gas emissions](#).” *Journal of Economic Perspectives*, 32 (4): 53 – 72 (2018).
- Dolphin, G., Pollitt, M.G. and Newbery, D.M., “[The political economy of carbon pricing: A panel analysis](#),” *Oxford Economic Papers* 72: 472 – 500 (2020). [*]

02/03: Part I. Environmental taxation

Required reading (37 pages):

- Robert C. Williams III. “[Environmental taxation](#),” chapter 3 in *The Economics of Tax Policy*, Oxford University Press (2017).

02/03: Part II. Case study on the politics of environmental policy

Required reading (18 pages):

- Anjani Datla, “Pricing carbon: The birth of British Columbia’s carbon tax,” *Harvard Kennedy School Case Number 2062.0* (2016).
- Attendance and participation is mandatory

02/10: Regulation – Public interest versus rent-seeking

Required reading (47 pages):

- Randall Holcombe, “Political markets: Interest groups, rent-seeking, and regulatory capture,” *Advanced Introduction to Public Choice*, 73 – 83 (2016).
- Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, “[The regulation of entry](#),” *The Quarterly Journal of Economics*, 117 (1): 1 – 37 (2002).

Further reading (2 discussion leads):

- Sheilagh Ogilvie, “[The economics of guilds](#),” *Journal of Economic Perspectives*, 28 (4): 169 – 192 (2014).
- Daron Acemoglu and James Robinson, “[Economics versus politics: Pitfalls of policy advice](#),” *Journal of Economic Perspectives*, 27: 173 – 192 (2013).
- Philippe Aghion, Yann Algan, Pierre Cahuc, and Andrei Shleifer. “[Regulation and distrust](#),” *The Quarterly Journal of Economics*, 125 (3): 1015 – 1049 (2010). [*]
- Roger Congleton, “The political economy of rent creation and rent extraction,” *The Oxford Handbook of Public Choice*, volume 1: 533 – 549 (2019).
- William Shughart II and Diana Thomas, “Interest groups and regulatory capture,” *The Oxford Handbook of Public Choice*, volume 1: 585 – 603 (2019).

02/17: Public finance – Tax incidence, optimal taxation and debt financing

Required reading (41 pages):

- Stiglitz, chapter 18 (pages 538 – 552 and 560 – 566)
- Stiglitz, chapter 20 (pages 606 – 610 and 621 – 630)
- Stiglitz, chapter 28 (pages 851 – 852 and 866 – 873)

Further reading (2 discussion leads):

- Wallace Oates and Robert Schwab, “[The window tax: A case study in excess burden](#)” *Journal of Economic Perspectives*, 29: 163 – 80 (2015).
- Peter Diamond and Emmanuel Saez, “[The case for a progressive tax: From basic research to policy recommendations](#),” *Journal of Economic Perspectives*, 25(4): 165 – 190 (2011).

- Enrico Moretti and Daniel J. Wilson, “[Taxing billionaires: Estate taxes and the geographical location of the ultra-wealthy](#),” *NBER Working Paper 26387* (2019). [*]
- Emmanuel Saez and Gabriel Zucman. “How would a progressive wealth tax work? Evidence from the economics literature,” *UC Berkeley Working Paper* (2019).

02/24: Class debate: Tax system reform (Klara Kinnl).

Required reading:

- TBD
- Attendance and participation is mandatory

03/03: State capacity and taxation.

Required reading (39 pages):

- Henrik Jacobsen Kleven, “[How can Scandinavians tax so much?](#)” *Journal of Economic Perspectives*, 28(4): 77 – 98 (2014).
- Timothy Besley and Torsten Persson, “[Why do developing countries tax so little?](#)” *Journal of Economic Perspectives*, 28(4): 99 – 120 (2014).

Background reading:

- Timothy Besley and Torsten Persson. “[Taxation and development](#),” In *Handbook of Public Economics*, 5: 51 – 63 (2013).

Further reading (2 discussion leads):

- Mark Dincecco. “[Fiscal centralization, limited government, and public revenues in Europe, 1650 – 1913](#),” *The Journal of Economic History*, 69(1): 48 – 103 (2009). [*]
- Daron Acemoglu, Davide Cantoni, Simon Johnson, and James A. Robinson. “[The consequences of radical reform: The French revolution](#),” *American Economic Review*, 101 (7): 3286 – 3307 (2011). [IE]
- Davide Cantoni, Cathrin Mohr, and Matthias Weigand. “[The rise of fiscal capacity](#),” *Uni-Muenchen Working Paper* (2019). [*]
- Raul Sanchez de la Sierra, “[On the origins of the state: Stationary bandits and taxation in Eastern Congo](#),” *Journal of Political Economy*, 128: 32 – 74 (2020). [*]
- Erzo Luttmer and Monica Singhal, “[Tax morale](#),” *Journal of Economic Perspectives*, 28 (4): 149 – 168 (2014).

03/10: Economic models of politics

Required reading (29 pages + online material):

- Stiglitz, chapter 9 (pages 230 – 259)
- CORE unit 22, [Economics, politics, and public policy](#) (sections 22.5 – 22.8 and 22.10)

Background reading:

- Randall Holcombe, “The politics of left and right,” *Advanced Introduction to Public Choice*, 13 – 23 (2016).
- Meltzer, A.H. and Richard, S.F., “[A rational theory of the size of government](#),” *Journal of Political Economy*, 89: 914 – 927 (1981).
- James Buchanan and Gordon Tullock, “Simple Majority Voting,” chapter 10 of *The Calculus of Consent: Logical Foundations of Constitutional Democracy*, University of Michigan Press (1962).

Further reading (2 discussion lead):

- Hunt Allcott and Matthew Gentzkow. “[Social media and fake news in the 2016 election](#),” *Journal of Economic Perspectives*, 31 (2): 211 – 236 (2017).
- Cascio, Elizabeth U. and Na’ama Shenhav. “[A century of the American woman voter: Sex gaps in political participation, preferences, and partisanship since women’s enfranchisement](#),” *Journal of Economic Perspectives*, 34(2): 24 – 48 (2020).
- Cantoni, Enrico. “[A precinct too far: Turnout and voting costs](#),” *American Economic Journal: Applied Economics* 12: 61 – 85 (2020). [IE]
- Canen, Nathan, Chad Kendall, and Francesco Trebbi. “[Unbundling polarization](#),” *Econometrica* 88: 1197 – 1233 (2020). [*]
- James Adams, “Spatial voting models of party competition in two dimensions,” *The Oxford Handbook of Public Choice*, volume 1: 187 – 207 (2019).
- Serguei Kaniovski, “Turnout: Why do voters vote?,” *The Oxford Handbook of Public Choice*, volume 1: 310 – 332 (2019).

03/17. Income distribution, social mobility, and economic justice

Required reading (17 pages + online material):

- Rosen, chapter 12 (pages 258 – 275)
- Economics of the Gender Gap and Feminist Economics (Klara Kinnl)
- Thomas Piketty. *The Economics of Inequality*. Harvard University Press (2015).

Background reading:

- CORE unit 19, [Economic inequality](#) (sections 19.1 – 19.4 and 19.10 – 19.11)

Further reading (2 discussion leads):

- Henry S Farber, Daniel Herbst, Ilyana Kuziemko, Suresh Naidu, “[Unions and Inequality over the Twentieth Century: New Evidence from Survey Data](#),” *The Quarterly Journal of Economics* 136: 1325 – 1385 (2021). [IE]
- Annette Alstadsæter, Niels Johannesen, and Gabriel Zucman. “[Tax evasion and inequality](#),” *American Economic Review* 109 (6): 2073 – 2103 (2019). [*]
- Maitreesh Ghatak and Francois Maniquet. “[Universal basic income: Some theoretical aspects](#),” *Annual Review of Economics*, 11: 895 – 928 (2019).
- Rema Hanna and Benjamin A. Olken, “[Universal basic incomes versus targeted transfers: Anti-poverty programs in developing countries](#),” *Journal of Economic Perspectives*, 32 (4): 201 – 226 (2018). [IE]
- Facundo Alvaredo, Anthony Atkinson, Thomas Piketty, and Emmanuel Saez, “[The top 1 percent in international and historical perspective](#),” *Journal of Economic Perspectives*, 27: 3 – 20 (2013).

03/24. Why don't democracies redistribute more?

Required reading (21 pages):

- Adam Bonica, Nolan McCarty, Keith Poole, and Howard Rosenthal, “[Why hasn't democracy slowed rising inequality?](#)” *Journal of Economic Perspectives*, 27: 103 – 124 (2013).

Background reading:

- CORE unit 22, [Economics, politics, and public policy](#) (sections 22.11 – 22.14)

Further reading (3 discussion leads):

- Amory Gethin, Clara Martínez-Toledano, and Thomas Piketty. “[Brahmin Left versus Merchant Right: Changing Political Cleavages in 21 Western Democracies, 1948-2020](#),” *Quarterly Journal of Economics* (forthcoming)
- Hoy, Christopher, and Franziska Mager, “[Why Are Relatively Poor People Not More Supportive of Redistribution? Evidence from a Randomized Survey Experiment across Ten Countries](#),” *American Economic Journal: Economic Policy*, 13: 299 – 328 (2021). [IE]
- Alberto Alesina, Stefanie Stantcheva, and Edoardo Teso. “[Intergenerational mobility and preferences for redistribution](#),” *American Economic Review*, 108 (2): 521 – 554 (2018). [*]
- Joseph Stiglitz. “Rent seeking and the making of an unequal society,” *The Price of Inequality*, 35 – 65 (2012).
- Gregory Mankiw, “[Defending the one percent](#),” *Journal of Economic Perspectives*, 27 (3): 21 – 34 (2013).

03/31: Political protests and policy outcomes

Required reading (37 pages):

- Andreas Madestam, Daniel Shoag, Stan Veuger, and David Yanagizawa-Drott. “[Do political protests matter? Evidence from the Tea Party movement](#),” *The Quarterly Journal of Economics* 128 (4): 1633 – 1669 (2013).

Further reading (3 discussion leads):

- Aidt, Toke S., and Raphaël Franck. “[Democratization under the threat of revolution: Evidence from the Great Reform Act of 1832](#),” *Econometrica* 83: 505 – 547 (2015) [IE]
- Soumyajit Mazumder, “[The persistent effect of US civil rights protests on political attitudes](#),” *American Journal of Political Science* 62 (4): 922 – 935 (2018). [*]
- Omar Wasow. “[Agenda seeding: How 1960s black protests moved elites, public opinion and voting](#),” *American Political Science Review*, 1 – 22 (2020). [*]
- Bursztyn, Leonardo, Davide Cantoni, David Y. Yang, Noam Yuchtman, and Y. Jane Zhang. “[Persistent Political Engagement: Social Interactions and the Dynamics of Protest Movements](#),” *American Economic Review: Insights*, 3 (2): 233 – 50 (2021). [IE]

- Enikolopov, Ruben, Alexey Makarin, and Maria Petrova. “[Social media and protest participation: Evidence from Russia](#),” *Econometrica* 88: 1479 – 1514 (2020). [IE]
- Timur Kuran and Diego Romero, “The logic of revolutions: Rational choice perspectives,” *The Oxford Handbook of Public Choice*, volume 2: 345 – 362 (2019).

04/04: Take-home, open-book final exam. Due by 23:59.

EXTRA: Fiscal federalism, decentralization, and integration

Required reading (28 pages):

- Stiglitz, chapter 26 (pages 801 – 829)

Further reading (3 discussion leads):

- Benjamin Olken, “[Direct democracy and local public goods: Evidence from a field experiment in Indonesia](#),” *American Political Science Review*, 104 (2): 243 – 267 (2010). [IE]
- Jaroslaw Kantorowicz, “Federalism,” *The Oxford Handbook of Public Choice*, volume 2: 72 – 93 (2019).
- Lucie Gadenne and Monica Singhal, “[Decentralization in developing economies](#),” *Annual Review of Economics*, 6 (1): 581 – 604 (2014).
- Enrico Spolaore, “[What Is European integration really about? A political guide for economists](#),” *Journal of Economic Perspectives*, 27 (3): 125 – 44 (2013).
- Becker, Sascha O., Thiemo Fetzer, and Dennis Novy. “[Who voted for Brexit? A comprehensive district-level analysis](#).” *Economic Policy*, 32 (92): 601 – 650 (2017). [*]

EXTRA: The economics of populism

Required reading (21 pages):

- Dani Rodrik, “[Populism and the economics of globalization](#),” *Journal of International Business Policy*, 1: 12 – 33 (2018).

Further reading:

- Italo Colantone and Piero Stanig, “[The surge of economic nationalism in Western Europe](#),” *Journal of Economic Perspectives*, 33 (4): 128 – 151 (2019).
- Sebastian Edwards, “[On Latin American populism, and its echoes around the world](#),” *Journal of Economic Perspectives*, 33 (4): 76 – 99 (2019).
- Yotam Margalit, “[Economic insecurity and the causes of populism, reconsidered](#),” *Journal of Economic Perspectives*, 33 (4): 152 – 170 (2019).
- Colantone, I., Stanig, P., “[The trade origins of economic nationalism: Import competition and voting behavior in Western Europe](#),” *American Journal of Political Science*, 62 (4), 936 – 953 (2018). [*]
- Dinas, E., Matakos, K., Xefteris, D., Hangartner, D., “[Waking up the Golden Dawn: Does exposure to the refugee crisis increase support for extreme-right parties?](#)” *Political Analysis*, 1–11 (2019). [IE]