School of Government

PUBL 303 PUBLIC SECTOR ECONOMICS

Trimester Two 2010

COURSE OUTLINE

Names and Contact Details

Course Coordinator: Professor Claudia Scott
Room: Rutherford House Level 8, Room 805, Pipitea Campus
Phone: (04) 463 5377
Email: Claudia.Scott@vuw.ac.nz

Course Lecturers:

Lecturers contributing to PUBL 303 are Derek Gill from the Institute of Policy Studies, Geoff Lewis from the New Zealand Treasury and Matt Benge from the Inland Revenue Department.

Name: Derek Gill
Phone: (04) 463 6996 (office)
          029 441 5983 (mobile)
Email: Derek.Gill@vuw.ac.nz

Name: Geoff Lewis
Phone: (04) 917 6203
Email: Geoff.Lewis@treasury.govt.nz

Name: Matt Benge
Phone: (04) 890 6063
Email: Matt.Benge@ird.govt.nz

The course coordinator and staff will not have regular office hours, but will organise appointments with students as required.

Administrator: Mara Robertson
Rutherford House, Level 8, Room 821
(04) 463 6599
Mara.Robertson@vuw.ac.nz

Note: 1) PUBL 303 is recognised as satisfying one of the majoring requirements for Economics.
2) Please ensure that e-mails use PUBL 303 as the first words in the Subject Line, otherwise they risk being deleted as SPAM.
Trimester Dates

**Teaching Period:** Monday 12\(^{th}\) July – Friday 15\(^{th}\) October 2010  
**Study Period:** Monday 18\(^{th}\) October – Thursday 21\(^{st}\) October 2010  
**Examination Period:** Friday 22\(^{nd}\) October – Saturday 13\(^{th}\) November 2010 (inclusive)

Class Times and Room Numbers

Lectures: Monday and Wednesday 1.40pm – 2.30pm  
          RWW 315, Pipitea Campus  

Tutorial: Wednesday 2.40pm – 3.30pm  
          RWW 315, Pipitea Campus  

Tutorials will begin in the second week of the course.

Withdrawal from Courses

Your fees will be refunded if you withdraw from this course on or before 23 July 2010.

The last date for withdrawal from this course is Friday 24 September. After that date, permission to withdraw requires the permission of the Associate Dean (Students) as set out in section 8 of the Personal Courses of Study Statute:  
http://policy.vuw.ac.nz/Amphora!~~policy.vuw.ac.nz~POLICY~000000001743.pdf

To apply for permission, fill in the Late Withdrawal form available from either of our Student Customer Service Desks.

Course Content

Public economics provides an examination of the economics of collective decision making and the public framework around private decisions. The perspective is primarily microeconomic, focusing on the scope, form, level and method of government involvement in the economy, as well as the appropriate methods of raising the necessary revenue to finance public expenditure. Some discussion of national aggregates and indicators will be presented.

The second half of the course will be considered with various topics relating to the theory and practice surrounding tax policy.

These topics will be addressed from both a theoretical and applied perspective. The issues will be linked to issues in the New Zealand public sector, although experience in other countries will also be considered.
Outline of Sessions

Part 1  Government and Market Failure: the respective roles of markets and government in the economy; government spending and regulation

Lecturers:
Derek Gill: 12 July, 14 July, 9 August, 11 August, 16 August, 18 August
Geoff Lewis: 19 July, 21 July, 26 July, 28 July, 2 August, 4 August

Topics and Readings

July 12  The role(s) of government
What states do – spend, tax, regulate, own - roles – stabilisation, allocative/regulatory, distributive; growth of the state: Wagner’s law, the Baumol effect, fiscal illusion.
Changing role of the state in NZ relative to the OECD

July 14  Market Failure- the economic rationale for government
Public goods, externalities, merit goods, transactions costs; myths about government.

Reading:  Connolly, Sara & Alistair Munro (1999). Economics of the Public Sector, Prentice Hall Europe, Chapters 1 & 2.

Additional Readings (available on Blackboard):


**July 19**  
*Welfare Economics – how and when markets produce desirable outcomes*  
Efficiency and equity; the ‘invisible hand’; the first and second fundamental theorems of welfare economics including when, and when they are not, likely to apply; concepts of social welfare

**Reading:** Connolly & Munro, Chapters 2 and 3

**Additional Readings (available on Blackboard):**


**July 21**  
*Public Goods – definition and provision of public goods*  
Pure public goods and publicly-provided public goods  
Why markets struggle to provide public goods. What can be done about it?  
The “free rider” problem.

**Reading:** Connolly & Munro, Chapter 4

**Additional Readings (available on Blackboard):**


**July 26**  
*Externalities and solutions to the externality problem*  
Types of externalities, social and private benefits and costs, Pigouvian taxes, the Coase theorem

**Reading:** Connolly & Munro, Ch 5.

**Additional Readings (available on Blackboard):**


**July 28**  
**Asymmetric information**  
The market for ‘lemons’, adverse selection, moral hazard, the economics of insurance and health systems

**Reading:** Connolly & Munro, Ch 6

**Additional Readings (available on Blackboard):**


**August 2**  
**Cost-Benefit Analysis**  
Financial and economic cost-benefit analysis, valuing benefits and costs, time discounting, cost-effectiveness analysis

**Reading:** Connolly & Munro, Ch 7

**Additional Readings (available on Blackboard):**


Watkins, T. “An Introduction to Cost-Benefit Analysis”, Department of Economics, San Jose University, [http://www.sjsu.edu/faculty/watkins/cba.htm](http://www.sjsu.edu/faculty/watkins/cba.htm)


**August 4**  
**Case Study: Climate-change policy in New Zealand**  
Problem definition, efficient abatement of greenhouse gases: how does New Zealand’s emissions trading scheme (ETS) measure up? The international dimension – competitiveness, trading in emission units; political economy – industry, taxpayer and citizen perspectives
**Reading:** Connolly & Munro, Ch 23

**Additional Readings (available on Blackboard):**


**August 9 & 11  Government Failure and Public Choice/Demand**

**Reading:** Connolly & Munro, Ch 8

**Additional Readings (available on Blackboard):**


**August 16 & 18  Government Failure - Bureaucratic Supply.**

**Reading:** Connolly & Munro Ch 9 & 21

**Additional Readings (available on Blackboard):**


**Part 2: Taxation and Tax Policy**

**Lecturer:**

Matt Benge: 6, 8, 13, 15, 20, 22, 27, 29 September; 4, 6, 11, 13 October
Topics and Readings

There is no textbook which examines the tax policy issues that will be discussed in this course. The textbook Connelly, S. and A. Munro, *Economics of the Public Sector*, FT Prentice Hall, 1999 will be useful reading for about half of the tax issues covered. This will be supplemented by additional readings and notes provided on Blackboard. At times the additional readings available on the Blackboard will be the most critical readings for a topic. In all cases the most critical readings will be marked with an asterisk (*). Many Tax Reform documents are lengthy. Blackboard readings will only include relevant sections of various reports but fuller references are provided for those interested.

Note: readings are provisional. Some readings may be added to the following list. The allocation of topics to particular lectures is intended as a rough guide.

**September 6  Introduction**

This topic provides an outline of what will be covered in the course together with some facts and figures on the New Zealand tax system, how we compare with other countries and key policy challenges identified by Inland Revenue, the Treasury and by the recent VUW Tax Working Group. We outline key tax reforms introduced in Budget 2010 and also briefly discuss directions of reform suggested by Australia’s Henry Review.

**Reading:** Connolly & Munro Ch 10

**Additional Readings (available on Blackboard):**


**September 8, 13 & 15  Tax incidence and economic efficiency**

This topic discusses tax incidence (i.e., who bears the burden of a tax). In this topic we discuss the difference between the economic and legal incidence of a tax, examine the partial equilibrium incidence of taxes in both closed and open economies, discuss taxes on economic profits, land tax and tax capitalisation and briefly touch on general-equilibrium incidence. We consider practical attempts to measure the fairness of tax changes in New Zealand. We also discuss the economic costs of taxation and optimal taxation.

**Reading:** *Connolly & Munro Ch 11, Ch 12 pp. 214-215 and Ch 14, pp. 245-251.
Additional Readings (available on Blackboard):


*September 20, 22 & 27*  
**Taxes and saving**

In this topic we discuss how incentives to save can be affected by different types of tax including taxes on comprehensive income, labour income and on expenditure. [Warning: your textbook is more difficult than necessary in its discussion of this topic! The discussion in Rosen and Gayer is clearer for this topic.] We discuss what a neutral and comprehensive definition of income might involve and key ways in which New Zealand’s tax system departs from this definition. In particular, we consider biases created by the current tax treatment of housing and measures suggested in various tax reviews for reducing these biases.

**Reading:**  
Connolly & Munro Ch 12

Additional Readings (available in Library or on Blackboard):


September 29 & October 4  The personal tax and transfer systems and their effects on labour supply
In this section we discuss the effects of taxes on labour supply. We examine how taxes can have
offsetting income and substitution effects on labour supply and consider efficiency
consequences. We also consider how transfers can affect labour supply.

Reading:  *Connolly & Munro Ch 13

Additional Readings (available on Blackboard):
Kalb, G., 2010, ‘Modelling Labour Supply Responses in Australia and New Zealand’, Claus, I.,
N. Gemmell, M. Harding and D. White (eds.), Tax Reform in Open Economies:
International and Country Perspectives, Edward Elgar.

October 6, 11 & 13  International tax policy and company taxation
A key tax policy issue is how best to tax international capital flows. We discuss this issue in this
topic discussing some recent changes to New Zealand’s international tax regime and the policy
implications. A very important feature of company taxation is its implications for the taxation of
international income flows. But another important feature is in the way it protects the personal
income tax base. Up until the late 1980s, New Zealand had a classical company tax system
where companies were taxed and shareholders taxed a second time when dividends were paid.
This was replaced with New Zealand’ full imputation system where domestic shareholders
receive credits for company tax payments so that company profits are ultimately taxed at the tax
rates of shareholders. Partly because of its effects on international capital flows, an Allowance
for Corporate Equity (ACE), company tax system has been suggested in Australia. We explore
the economic effects of these different possible company tax systems.

Additional Readings (available on Blackboard):
tax rate, pp. 103-110, and International tax: taxing income from inbound and offshore
investment, pp. 125-165. For link to full document, see earlier.
Australia’s Future Tax System Review Team, December 2009, Australia’s Future Tax System:
Report to the Treasurer. B1, Company and other investment taxes, and B2, The treatment
of business entities and their owners, pp. 149-204. For link to full document, see earlier.

Additional Readings (available in the Library):
Fourth Edition (HJ2619.K39). (This provides a good readable overview of tax policy
issues).
## Course Learning Objectives

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<tr>
<th>Course Objectives: By the end of this course, students should be able to:</th>
<th>Major Attributes</th>
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<tr>
<td>1</td>
<td>Use economic theory to analyse the economic borders of the state, market and not-for-profit sectors.</td>
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<td>2</td>
<td>Appraise the relative importance of market failure and government failure for government policy, and evaluate alternative economic frameworks for analysing public economic policy.</td>
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<td>3</td>
<td>Apply these alternative frameworks to a variety of practical situations, including environmental policy, social security policy, education and taxation.</td>
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<td>4</td>
<td>Appraise the relative importance of economic efficiency, equity and sustainability in the determination of society well-being and social outcomes.</td>
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<td>5</td>
<td>Appraise the appropriate form of government involvement in a modern mixed economy, ranging from direct provision to financing private provision, use of taxes and subsidies, regulation, or contracting.</td>
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<td>6</td>
<td>Demonstrate an understanding of the normative and practical limits to public economics, including the limits to the coercive role of the state.</td>
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<td>7</td>
<td>Combine theoretical and empirical information to illuminate key contemporary public economic policy issues.</td>
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<tr>
<td>8</td>
<td>Appraise different disciplinary contributions (especially neo-classical economics, behavioural economics, ecological economics, public choice and institutionalism to the development, implementation and evaluation of public economic policy.</td>
</tr>
<tr>
<td>9</td>
<td>Appraise alternative structures of governance, agencies and governance rules.</td>
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<tr>
<td>10</td>
<td>Articulate the relevant criteria that might be used to assess the advantages and disadvantages of particular policy options.</td>
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### Major Attributes: PUBL majors will be able to

| MA1 | Judge the defining features of good policy analysis and advice and appraise how they are best produced |
| MA2 | Demonstrate an understanding of the influence of political ideas and philosophies, and of constitutional and political institutions on public policy |
| MA3 | Demonstrate an understanding of the contribution of quantitative and qualitative methods in policy analysis |
| MA4 | Identify the nature and respective roles of state and civil society in the development, implementation and evaluation of public policy, and demonstrate an understanding of the distinction between government and governance |
| MA5 | Appraise different disciplinary contributions to the development, implementation and evaluation of public policy |
| MA6 | Judge the relevance and importance of evidence in policymaking |
| MA7 | Apply the comparative method to policy analysis, and identify insights that might be drawn from other policy jurisdictions |
| MA8 | Judge and articulate the relevant criteria that might be used in assessing the advantages and disadvantages of particular policy options |
| MA9 | Analyse complex policy issues from multiple perspectives and identify opportunities for innovation |
| MA10 | Express ideas succinctly and persuasively both in written form and orally |
| MA11 | Construct and articulate rationales for public policy intervention |
| MA12 | Demonstrate an understanding of the significance of ethics and accountability in the study and practice of public policy |
| MA13 | Interpret the significance of the Treaty of Waitangi (Te Tiriti o Waitangi) in the study and practice of public policy in New Zealand |

**Course Delivery**

This course will be delivered as a series of lectures on specific topics, supplemented by tutorials to assist understanding and application of the topics. Attendance at all lectures and tutorials will enhance learning outcomes from the course.

**Expected Workload**

One point should equate to 10 hours of work, which means a total of 150 hours for a 15-point course, which will typically be spread over a 15 week period (the 12 teaching weeks, mid-trimester break, study week and the examination period). Time spent on work outside class has to be an estimate for an average student.

**Group Work**

Other than group discussion in tutorials, no group work is anticipated and will not form part of the assessment in the course.

**Readings and Textbooks**

The textbook for the course is:


Students will require regular access to the course text and to supplementary readings the latter will be made available on Blackboard. Copies of the text have been ordered through Vic Books and second hand copies may also be available. A copy of the book is also available on closed reserve at the VUW Central Library at Kelburn and at the Commerce Library in Railway West Wing.
Assessment Requirements

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<tr>
<th>ASSIGNMENT</th>
<th>DUE DATE</th>
<th>WEIGHT</th>
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<tr>
<td>1st Essay (2,500 words) (all course objectives)</td>
<td>Friday 20 August</td>
<td>20%</td>
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<tr>
<td>2nd Essay (2,500 words) (all course objectives)</td>
<td>Friday 8 October</td>
<td>20%</td>
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<tr>
<td>Final exam (all course objectives)</td>
<td>Check schedule</td>
<td>60%</td>
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Assessment in the course will consist of two essays (20% each) and a final examination worth 60%. Further details on each of these assessments, including topics, will be provided by lecturers in class.

Further information on the nature of the final examination will also be provided to students in class and on Blackboard.

Essays are to be submitted to sog-assignments@vuw.ac.nz by email attachment. These will be marked electronically using the ‘track changes’ function in Word, so you should send your papers in a format that allows this (no pdf’s, thanks).

You will also need to complete a School of Government Assignment Cover Sheet for each essay. The cover sheet can be downloaded from Blackboard. Please indicate your document’s word count on the cover sheet and don’t forget to include your name.

**Students should keep a copy of all submitted work.**

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

**Examinations**

Further information on the nature of the final examination will be provided to students in class and on Blackboard.

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period.

The final examination for this course will be scheduled at some time during the period from Friday 22 October to Saturday 13 November 2010 (inclusive).

**Penalties**

Essays not handed in by the due date or by the date of extension will have a mark out of 100 reduced by 5% for each late day. Essays handed in more than 5 days after the due date, or after the date of extension, will not normally be accepted.

If ill-health, family bereavement or other personal circumstances beyond your control prevent you from meeting the deadline for submitting a piece of written work or from attending class to make a presentation, you can apply for and may be granted an extension to the due date. You
should let your lecturer and course coordinator know as soon as possible in advance of the
deadline (if circumstances permit) if you are seeking an extension.

Extensions will be granted to those who meet the University’s aegrotat rules (eg. medical
certificate, personal bereavement, critical personal circumstances involving the health of a close
relative or personal circumstances beyond your control). If you are having troubles let your
lecturer and course coordinator know.

**Mandatory Course Requirements**

To fulfil the mandatory paper requirements for this paper you must:

(a) complete the two essay assignments specified above;
(b) attend at least 80% of the weekly tutorials;
(c) sit the final examination.

Students who fail to satisfy the mandatory requirements for passing this course, other than the
requirement to obtain a C grade overall, will not receive a graded result, and their records will
show a “K” (fail due to not satisfying mandatory course requirements, even though the student’s
course requirements reached the level specified for a pass).

**To pass PUBL 303 a student must meet the mandatory requirements and achieve at least a
total of 50% over all the assessments.**

**Class Representative**

A class representative will be elected in the first class, and that person’s name and contact details
will be available to VUWSA, the Course Coordinator and the class. The class representative
provides a communication channel to liaise with the Course Coordinator on behalf of students.

**Communication of Additional Information**

Additional information or information and on any changes to the nature and timing of
assessments will be conveyed to students in class and also through notices on Blackboard.
Additional supplementary readings will also be put on Blackboard.

**Academic Integrity, Plagiarism, and the use of Turnitin**

Plagiarism is presenting someone else’s work as if it were your own, whether you mean to or not.

‘Someone else’s work’ means anything that is not your own idea. Even if it is presented in your
own style, you must still acknowledge your sources fully and appropriately. This includes:

- material from books, journals or any other printed source
- the work of other students or staff
- information from the Internet
- software programs and other electronic material
- designs and ideas
• the organisation or structuring of any such material.

Acknowledgement is required for all material in any work submitted for assessment unless it is a ‘fact’ that is well-known in the context (such as “Wellington is the capital of New Zealand”) or your own ideas in your own words. Everything else that derives from one of the sources above and ends up in your work – whether it is directly quoted, paraphrased, or put into a table or figure, needs to be acknowledged with a reference that is sufficient for your reader to locate the original source.

Plagiarism undermines academic integrity simply because it is a form of lying, stealing and mistreating others. Plagiarism involves stealing other people’s intellectual property and lying about whose work it is. This is why plagiarism is prohibited at Victoria.

If you are found guilty of plagiarism, you may be penalised under the Statute on Student Conduct. You should be aware of your obligations under the Statute, which can be downloaded from the policy website (www.victoria.ac.nz/home/about/policy/students.aspx). You could fail your course or even be suspended from the University.

Plagiarism is easy to detect. The University has systems in place to identify it.

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine http://www.turnitin.com. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

There is guidance available to students on how to avoid plagiarism by way of sound study skills and the proper and consistent use of a recognised referencing system. This guidance may be found at the following website http://www.victoria.ac.nz/home/study/plagiarism.aspx

If in doubt seek the advice of your course coordinator.

Plagiarism is simply not worth the risk.

For the following important information follow the links provided:

Academic Integrity and Plagiarism
http://www.victoria.ac.nz/home/study/plagiarism.aspx

General University Policies and Statutes
http://www.victoria.ac.nz/home/about/policy

AVC (Academic) Website: information including: Conduct, Academic Grievances, Students with Impairments, Student Support
http://www.victoria.ac.nz/home/about_victoria/avcacademic/Publications.aspx

Faculty of Commerce and Administration Offices
http://www.victoria.ac.nz/fca/studenthelp/

Manaaki Phipihinga Programme
http://www.victoria.ac.nz/st_services/mentoring/