

Public Sector Economics

Institution: School of Public Policy, Central European University

Year/Term: Year 1

Course type: Track-specific course

ECTS: 4

Brief description

This course provides an introduction to modern public economics. It begins with the presentation of the basic set of analytical tools used by economists in treating public economic issues that may require public (governmental) intervention in competitive markets. The analytical focus of the first part is on the social problem of externalities and the tools available to policy makers to correct socially inefficient market outcomes. Once the tools of analysis are presented and the need for a public sector has been established, the second part of the course deals with some specific areas of public policy making (environmental policy, social insurance and social security, fighting poverty and income redistribution, among others). The third part considers some political economy issues -- while the economist may be quick to point out where public policy can be welfare-enhancing for society, the implementation of policy must work through the machinery of democracy and we will, thus, cover the classic economic models of politics. The fourth part of the course considers the revenue side, specifically how public expenditures are to be financed through taxation or public debt. We will critically examine the efficiency effects of taxation and study optimal methods of raising public revenues through taxation. Additionally, in this part, we will consider the intergenerational consequences of public debt as well as contemporary debates on fiscal federalism.

Learning outcomes

- Understand the concept of externalities to economic decision-making, in general, and economically analyze the optimal policy responses.
- Understand how public goods are to be optimally provided.
- Understand the role of government in areas such as healthcare, education, social security, poverty alleviation, and income redistribution.
- Understand how political dynamics shape public policy decision-making using a classic economic model of politics.

Understand how the government raises revenues through taxation to finance public expenditures and how different forms of taxation affect individual decision-making.