

Economics of Public Policy: Syllabus HS 2023

<u>Instructors</u>	Prof. Dr. Beat Hintermann JBH 4.42 b.hintermann(at)unibas.ch	Prof. Dr. Alois Stutzer JBH 4.44 alois.stutzer(at)unibas.ch
<u>Assistants</u>	Léo Picard leo.picard@unibas.ch	Kelly Liu kelly.liu@unibas.ch
<u>Language</u>	English	
<u>Credits</u>	3 CP	
<u>Time / Place</u>	Thursdays, 14:15-16:00, WWZ S13/S14/S15 (see course directory)	
<u>Literature</u>	Relevant textbook chapters and journal articles will be made available on ADAM	
<u>Exam</u>	TBD	
<u>Office hours</u>	By appointment (with A. Stutzer or B. Hintermann)	

The syllabus is subject to updates. Please consult regularly. This version: September 13, 2023

Contents and goals

This introductory course sets the stage for students to understand the role of public policy in a market economy. The course includes and combines elements from normative and positive public economics and the constitutional approach to political economy.

The questions discussed include: When and how should and do governments intervene, and how can we test whether an intervention was successful using empirical evidence? How can we prevent that a market failure is replaced by a government failure, and vice versa? What institutions can help us reach an outcome that is both efficient and socially acceptable? What is the role of, and the need for, redistribution? The course provides a theoretical foundation for the economics of public policy and discusses applications from different fields. It is taught by Profs. Hintermann and Stutzer and also includes guest lectures from other faculty members.

Students become acquainted with thinking about public policy from an economics point of view. They become familiar with different theoretical frameworks to define and shape public involvement in a market economy and, more generally, in society. They understand the concepts of market and government failures and the type of interventions that can alleviate them. They learn why public programs need to be evaluated regularly, what principles should guide empirical work and how the results can be interpreted.

The course also provides the fundamentals for other core and field courses in the Master of Economics and Public Policy.

Textbooks

The economic analysis of public policy is the subject of various textbooks that adopt different perspectives considering more or less a public economic or political economy perspective. We draw inter alia on the following textbook when developing our teaching material.

Abelson, P. (2018). *Public Economics: Principles and Practice*. Online:

<http://www.applieconomics.com.au/publications/public-economics/index.htm>

Blankart, C. B. (2012). *Öffentliche Finanzen in der Demokratie*. München: Vahlen.

Frey, B.S., and G. Kirchgässner (1994). *Demokratische Wirtschaftspolitik: Theorie und Anwendung*. München: Vahlen.

Gruber, J. (2022). *Public Finance and Public Policy*. 7th Edition. New York: Worth Publishers.

Mueller, D. (2003). *Public Choice III*. Cambridge: Cambridge University Press.

Tresch, R. (2015). *Public Finance: A Normative Theory*, 3rd Ed. Academic Press.

Voigt, S. (2020). *Constitutional Economics: A Primer*. Cambridge: Cambridge University Press.

Freely accessible via the library of the University of Basel (VPN).

Course outline and reading list

Readings: *marks required material; all others are recommended only.

Lecture 1 Introduction: The economic approach to human behavior and public policy (September 21)

*Hintermann, B., Molloy, J., Schoeman, B., Götschi, T., Castro, A., Tchervenkov, C., Tomic, U. and Axhausen, K. (2022). Pigovian Transport Pricing in Practice. *WWZ Working Paper 2021/11*, Faculty of Business and Economics, University of Basel. ([Link](#))

Saez, E. (2021). Public Economics and Inequality: Uncovering Our Social Nature. *AEA Papers and Proceedings*, 111, 1-26.

Lecture 2 Market functioning and failure (September 28)

*Tresch (2015), Chapter 2.

Samuelson, P. A. (1954). The Pure Theory of Public Expenditure. *Review of Economics and Statistics*, 36(4), 387-389.

Samuelson, P. A. (1955). Diagrammatic Exposition of a Theory of Public Expenditure. *Review of Economics and Statistics*, 37(4), 350-356.

Tresch (2015), Chapter 1.

Tutorial: Friday, September 29, 14:15 – 16:00

Lecture 3 Externalities and public goods

(October 5)

*Tresch (2015), Chapter 6.

Atkinson, A., & Stern, N. (1974). Pigou, Taxation and Public Goods. *Review of Economic Studies*, 41(1), 119-128.

Baumol, W. J., & Oates, W. (1988). *The Theory of Environmental Policy*, 2nd Ed. Cambridge: Cambridge University Press.

Diamond, P., & Mirrlees, J. (1973). Aggregate Production with Consumption Externalities. *Quarterly Journal of Economics*, 7(1), 1-24.

Gruber (2022), Chapters 5-7

Hamilton, J., Sheshinski, E., & Slutsky S. (1989). Production Externalities and Long-Run Equilibria: Bargaining and Pigovian Taxation. *Economic Inquiry*, 27(3), 453-471.

King, M. (1989). A Pigovian Rule for the Optimum Provision of Public Goods. *Journal of Public Economics*, 30(3), 273-291.

Tresch (2015), Chapters 5, 7-8.

Tutorial: Friday, October 6, 14:15 – 16:00

Lecture 4 Public goods and the supply of electricity (guest lecturer: Prof. H. Weigt)

(October 12)

Cramton, P., Ockenfels, A., & Stoft, S. (2013). Capacity market fundamentals. *Economics of Energy & Environmental Policy*, 2(2), 27-46.

Larsen, E. R., Osorio, S., & van Ackere, A. (2017). A framework to evaluate security of supply in the electricity sector. *Renewable and Sustainable Energy Reviews*, 79, 646-655.

Weigt, H., Abrell, J., Betz, R., Frauendorfer, K., Krysiak, F., Roux, C., ... & Winzer, C. (2018). Strommarktdesign: In welche Richtung soll es gehen ?

Vallés, M., Reneses, J., Cossent, R., & Frías, P. (2016). Regulatory and market barriers to the realization of demand response in electricity distribution networks: A European perspective. *Electric Power Systems Research*, 140, 689-698.

Lecture 5 The approach of welfare economics and the critique of Public Choice theory

(October 19)

*Tresch (2015), Chapter 4, p. 57-65.

Besley, T. (2004). Welfare Economics and Public Choice. In: C. Rowley and F. Schneider (eds.). *The Encyclopedia of Public Choice*. Boston, MA: Springer: 933-937.

Tresch (2015), Chapter 3; remainder of Chapter 4.

Lecture 6 The constitutional approach to public policy

(October 26)

*Buchanan, J.M. (1987). Constitutional Economics. In: J. Eatwell et al. (eds.). The New Palgrave: A Dictionary of Economics, 1st edition. London Basingstoke: Macmillan.

*Voigt S. (2021). Constitutional Political Economy. In: A. Marciano and G. B. Ramello (eds.). Encyclopedia of Law and Economics. New York, NY: Springer.

Rawls J. (1958) Justice as Fairness. *Philosophical Review*, 67(2), 164-194.

Lecture 7 Guest lecture

(November 2) Content TBD

Lecture 8 Redistribution

(November 9)

*Tresch (2015), Chapter 19.

Bellani L. and H. Ursprung (2019). The Political Economy of Redistribution Policy. In: R. D. Congleton, B. Grofman and S. Voigt (eds.). The Oxford Handbook of Public Choice, Volume 2. Oxford: Oxford University Press.

Meltzer, A. H., & Richard, S. F. (1981). A rational theory of the size of government. *Journal of political Economy*, 89(5), 914-927.

Saez, E. (2021, May). Public Economics and Inequality: Uncovering Our Social Nature. In *AEA Papers and Proceedings* (Vol. 111, pp. 1-26).

Lecture 9 Social insurance

(November 16)

*Tresch (2015), Chapter 20, p. 339-359

Gruber (2022), Chapters 12-13

Staubli, S., & Zhao, Q. (2022). The Long-Run and Distributional Impacts of Public Pensions. Working paper, Department of Economics, University of Calgary, Calgary.

Tresch, Chapter 21

Lecture 10 Cost-benefit analysis and discounting

(November 23)

*Gruber (2022), Kap. 8

Hammitt, J. K. (2007). Valuing changes in mortality risk: lives saved versus life years saved. *Review of Environmental Economics and Policy*, 1(2), 228-240.

Krupnick, A., & Morgenstern, R. (2002). The future of benefit-cost analyses of the Clean Air Act. *Annual Review of Public Health*, 23(1), 427-448.

Nordhaus, W. D. (2017). Revisiting the social cost of carbon. *Proceedings of the National Academy of Sciences*, 114(7), 1518-1523.

Swiss Federal Office of Spatial Development (2022). Value of Statistical Life (VOSL): Empfohlener Wert der Zahlungsbereitschaft für die Verminderung des Unfall- und Gesundheitsrisikos in der Schweiz. [\[Link\]](#)

Viscusi, K. and J. Aldy (2003): *The Value of a Statistical Life: A Critical Review of Market Estimates Throughout the World*. *Journal of Risk and Uncertainty* 27(1), 5-76.

Lecture 11 Behavioral public policy

(November 30)

Tresch (2015), Chapter 25

Oliver, A. (2015). Nudging, Shoving, and Budging: Behavioural Economic-Informed Policy. *Public Administration*, 93(3), 700-714.

Lecture 12 Health policy (guest lecturer: Prof. S. Felder)

(December 7)

Zweifel, P., F. Breyer, and M. Kifmann (2009). *Health Economics*, 2nd edition. Berlin: Springer, Chapter 5 „Health Goods, Market Failure and Justice” (pp. 155-201).

Written exam will take place during the official exam period. The date and time will be announced.