

Course Outline

Department of Economics  
School of Business and Economics

**ECON 3500-3**  
**Public Finance (3,0,0)**

**Calendar Description**

Students examine the rationale for government intervention in a market economy, the assessment of public policy, and the impact of government expenditures and taxation on the economy and the citizenry. Topics include government activities, externalities, public goods, social security, fiscal deficits and public debt, principles of taxation, incidence and effects of taxation, and optimal taxation.

**Educational Objectives/Outcomes**

Upon completing this course, students will be able to:

1. Explain the rationale for government intervention in the market economy.
2. Illustrate different ways of government intervention in the market.
3. Analyze the consequences of government intervention in terms of efficiency and equity.
4. Define fiscal federalism and fiscal equalization.
5. Evaluate the two alternative expenditure programs.
6. Describe three rules of tax incidence.
7. Compare the effects of direct versus indirect taxation.
8. Identify the factor(s) affecting the inefficiency of the taxation.
9. Compute optimal tax rate.
10. Demonstrate the effect of taxation on labour supply.

**Prerequisites**

ECON 1900; ECON 1950

**Co-requisites**

**Texts/Materials**

Jonathan Gruber, Public Finance and Public Policy, 2nd Edition, Worth Publishers, 2007.

**Student Evaluation**

Participation	0-20%
Assignments/quizzes	0-20%
Project/paper	0--25%
Midterm(s)	30-60%
Final exam	0-50%

## Course Topics

1. The Role of Government in a Market Economy
  - Four questions of public finance
  - Conditions for market failure
2. The Public Sector in Canada
  - Kinds of government activities
  - Government and production
  - Government purchase of goods and services
  - Government redistribution of income
  - Government total expenditure
3. Externalities – Problems, Solutions and Applications
  - What is it?
  - Private sector solutions to negative externalities
  - Public sector remedies for externalities
  - Public expenditure programs
4. Public Goods
  - Public goods and free rider problem
  - Optimal provision of public goods
  - Private provision of public goods
  - Public provision of public goods
5. Social Security and Social Insurance
  - What are they? How do they work?
  - Why are these programs?
  - Consumption smoothing benefits of income security
  - Externality, asymmetric information and adverse selection and distribution effect
6. Fiscal Stimulus Package
  - Is fiscal stimulus a palliative or a cure?
  - Long-term versus short-term effects
  - Which stimulus programs work best?
  - Rationale against bail out

7. Fiscal Deficit and Public Debt
  - Sources of budget deficit
  - Consequences of budget deficit
  - Why do we care about the government fiscal position?
8. Taxation: Principles and Its Incidence
  - Types of taxation
  - Desirable characteristics of any tax system
  - Factors determining the distribution of tax burdens
  - Tax incidence in factor markets
  - General equilibrium tax incidence
9. Taxation and Economic Efficiency
  - Effects of taxes borne by consumers
  - Effects of taxes borne by producers
  - Effects of taxes on labor supply
10. Tax Inefficiencies and Their Implications for Optimal Taxation
  - Taxation and economic efficiency
  - Optimal commodity taxation
  - Optimal income taxes
11. Issues in Sovereign Debt Crisis in Europe

**Methods for Prior Learning Assessment and Recognition**

As per TRU policy

**Attendance Requirements – Include if different from TRU Policy**

As per TRU policy

**Special Course Activities – Optional**

**Use of Technology – Optional**