

Econ*6400 Public Economics Winter 2025

General Course Information

Instructor:	J. Atsu Amegashie
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<i>Office Hours</i>	Tuesday/Thursday, 1 pm to 2 pm (in MCKN 711)
<i>Department/School</i>	Department of Economics and Finance
Pre-requisites:	The depth of the microeconomic analysis in the course is not beyond Econ 6500 (Microeconomics for MA students). So, students with Econ 6500 or Econ 6000 (Micro 1 for PhD students) can take the course.

Course Description

In the wake of the global financial crisis that reached its peak in 2008, the role of government, markets, and regulatory agencies requires some scrutiny. Public Economics is a systematic economic study of the functions of government and markets. Roughly twenty-five percent of Canada's national output is purchased by government, and approximately one-third of national income is collected in taxes. This course evaluates both market performance and government intervention, and critically reviews the main sources of tax revenue. The objectives of this course are to develop the requisite theoretical tools for an economic study of the public sector, introduce the student to institutional fiscal arrangements in Canada, and develop an appreciation of public sector expenditure and taxation. This course is grounded in microeconomic theory.

Course Content

Fundamental theorems of welfare economics: when is government intervention in markets necessary and justified? When are markets efficient? The public provision and production of services/goods. The economics of privatization.

Efficient and equitable taxation: the Ramsey elasticity rule, commodity taxation versus income taxation; The economics of flat tax versus progressive tax. Why do we have progressive taxation when flat taxes or proportional taxes satisfy the ability-to-pay principle (i.e., the rich pay more in tax than the poor)? Does the equal sacrifice principle of taxation necessarily imply progressive taxation? How do we measure the progressivity of a tax system? An editorial in the Wall Street Journal on November 29, 2024 stated that "The top 10% of income tax filers carried 72% of tax burden. Self-styled progressives will never admit it but **US income taxes are already highly progressive.**" Is this argument valid?

Consumption Taxation: We shall look at the intellectual basis of value-added taxation VAT: the Diamond-Mirrlees production efficiency theorem. The history of the HST (Harmonized Sales Tax) in Ontario and

Canada (a discussion of why HST was introduced in Ontario and other provinces in Canada). Why is there a GST refund in Canada?

Taxation and efficient redistribution: We shall discuss asymmetric information and redistribution based on, among others, my article titled “Self-selection, optimal income taxation, and redistribution” which appeared in the *Journal of Economic Education*, Vol 40, Winter 2009: 55-67. Can redistributions enhance the efficiency of the market? Why do we have in-kind transfers when cash transfers are apparently better or efficient?

Fiscal Federalism: the economics of fiscal federalism; the formula for fiscal equalization payments in Canada and its economic justification; Why does Canada’s fiscal equalization formula equalize fiscal capacity, not fiscal need? Why does Alberta complain about Canada’s fiscal equalization program? Why does Quebec usually get equalization payments while Alberta does not?

The economics of public debt management: When is public debt sustainable? Should we use the debt-GDP ratio in debt sustainability analysis? Can we live without fiscal deficits? Debt defaults, haircuts, and debt restructuring.

Public Goods: the Samuelson condition; voluntary contributions to public goods; policies to increase the provision of public goods, etc.

Health Care: equity and efficiency.

Course Learning Outcomes

Learning Objectives

Skills:

a) *Numerical Problem Solving:*

Students will *learn* basic problem-solving techniques using tools acquired in microeconomics. This includes, for example, finding optimal tax rates, Fiscal Equalization Payments under Canada's Federal system. This will be tested on assignments, the midterm, and final.

b) *Analytical Problem Solving:*

The course will use algebraic and graphical *analysis to demonstrate and interpret* various economic models of taxation and public expenditure and government policies like Value-Added Taxes. This will be tested on assignments, the midterm, and final.

c) ***Problem Solving in a Real World Context:***

Students will ***apply*** the principles learned in this course to critically ***examine*** economic policies like Ontario Harmonized Sales Tax. This will be tested on assignments, the midterm, and final.

d) ***Professional and ethical awareness and conduct:***

There will be no extensions on assignments in order to access ***time management*** skills.

Knowledge:

a) ***Mathematical Methodology:***

Students will ***apply*** mathematical concepts and tools to ***explain*** basic economic models and the interaction between economic variables. This will be tested on assignments, the midterm, and final.

b) ***Microeconomic Modeling:***

Students must ***understand*** basic principles of microeconomics (including demand and supply, utility and consumer choice, production and cost, market structure, government intervention, credit markets), ***demonstrate*** basic economic models and ***discuss*** how these models work. All of the assessment tools in this course will test these ideas with reference to public economics.

c) ***Understanding of Specific Markets:***

Specific markets will be ***analyzed*** in this course, including goods, housing, health care, labor, and credit markets with particular emphasis on the government's role in these markets.

d) ***Economic Policy and Regulation:***

Students must ***understand*** the successes and failures of government intervention in the market and ***explain*** the role of public policies, such as fiscal policy, taxation, etc. This will be tested on assignments, midterm and final exam.

Course Assessment

Associated Learning Outcomes

Date/ location

Assignment:	20%	Same as in course learning outcomes.	Due on Thursday February 13
Midterm:	20%	Same as in course learning outcomes.	Tuesday February 25; Venue: In CLASS
Term Paper:	30%	Same as in course learning outcomes.	Due by the last day of the semester
Final	30%	Same as in course learning outcomes.	Will discussed in class

Teaching and Learning Practices

Lectures The main method of teaching will be in-class lectures. It is imperative you have a complete set of notes. Class attendance is very important.

Labs There are no labs.

Course Resources

The main text is:

There is no textbook. I shall give you detailed class notes.

Courselink is the website for the course. At courselink, you will find all necessary information regarding the course, as well as all announcements made throughout the course and additional online materials (such as supplementary notes, solutions to midterm exams, assignments).

Course Policies

Students are required to visit Courselink regularly: Announcements will be posted there.

Communication and Office Hours

I am available for students during my office hours. If my office hours are inconvenient for you, you can make an appointment. Appointments have to be made ahead of time.

I will respond to emails within a reasonable time. **I do not accept or answer emails that do not come from a *uoguelph* account. Since this is NOT a distance education course, I expect you to make good use of my**

office hours and will not respond to long e-mails that require a detailed response especially on technical and mathematical arguments.

Missed Exams and Time Conflicts

A student who has a time conflict with the final exam or midterm should not enrol in the course. If the final exam is missed, the course is not completed.

If you miss the midterm exam, the weight of the midterm will be shifted to the final exam.

It is a student's responsibility to inform the instructor of an existing conflict with a midterm exam.

Vacation travel, moving house, or outside work commitments will not be accepted as valid reasons for missing deadlines or exams.

University Policies

Academic Consideration

When you find yourself unable to meet an in-course requirement because of illness or compassionate reasons, please advise the course instructor in writing, with your name, id#, and e-mail contact. See the academic calendar for information on regulations and procedures for Academic Consideration:

<http://www.uoguelph.ca/registrar/calendars/undergraduate/current/c08/c08-ac.shtml>

Academic Misconduct

The University of Guelph is committed to upholding the highest standards of academic integrity and it is the responsibility of all members of the University community, faculty, staff, and students to be aware of what constitutes academic misconduct and to do as much as possible to prevent academic offences from occurring.

University of Guelph students have the responsibility of abiding by the University's policy on academic misconduct regardless of their location of study; faculty, staff and students have the responsibility of supporting an environment that discourages misconduct. Students need to remain aware that instructors have access to and the right to use electronic and other means of detection. Please note: Whether or not a student intended to commit academic misconduct is not relevant for a finding of guilt. Hurried or careless submission of assignments does not excuse students from responsibility for verifying the academic integrity of their work before submitting it. Students who are in any doubt as to whether an action on their part could be construed as an academic offence should consult with a faculty member or faculty advisor.

The Academic Misconduct Policy is detailed in the Undergraduate Calendar:

<https://www.uoguelph.ca/registrar/calendars/undergraduate/current/c08/c08-amisconduct.shtml>

Accessibility

The University of Guelph is committed to creating a barrier-free environment. Providing services for students is a shared responsibility among students, faculty and administrators. This relationship is based on respect of individual rights, the dignity of the individual and the University community's shared commitment to an open and supportive learning environment. Students requiring service or accommodation, whether due to an identified, ongoing disability or a short-term disability should contact Student Accessibility Services as soon as possible.

For more information, contact SAS at 519-824-4120 ext. 56208 or email sas@uoguelph.ca or see the website: <https://wellness.uoguelph.ca/accessibility/>

Course Evaluation Information

Please refer to the [Blue by Explorance system](#).

Recording of Materials

Presentations which are made in relation to course work—including lectures—cannot be recorded or copied without the permission of the presenter, whether the instructor, a classmate or guest lecturer. Material recorded with permission is restricted to use for that course unless further permission is granted.

Drop date

The last date to drop one-semester courses, without academic penalty, is April 4, 2025. For regulations and procedures for Dropping Courses, see the Academic Calendar:

<https://www.uoguelph.ca/registrar/calendars/undergraduate/current/c08/c08-drop.shtml>