



Stellenbosch

UNIVERSITY
IYUNIVESITHI
UNIVERSITEIT

DEPARTMENT OF ECONOMICS

HONOURS PROGRAMME IN ECONOMICS

PUBLIC ECONOMICS 771

(2023)

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Welcome to the honours-level Public Economics module. We trust that you will find it interesting and useful.

A. GOALS

The aim of this module is to provide a thorough overview of three core topics in Public Economics: the economic role of the government, taxation, and intergovernmental fiscal relations. The module focuses on theoretical ideas and applications to South Africa.

Studying the contents of this module should enable you to:

- understand broad views on the economic role of the government and comment on that role in South Africa and other developing countries;
- master theoretical perspectives about market failure, government failure, taxation and intergovernmental fiscal relations and apply them to policy questions in South Africa and other developing countries; and
- apply theoretical ideas to assess the influence of public sector activities on the South African and other developing economies at the microeconomic level.

B. PRESENTERS' CONSULTATION HOURS

Dr Siebrits and Prof Jansen will be available for consultation by appointment. Please use the contact details on the cover page of this document to arrange appointments.

C. MODULE PAGES

All announcements, links to the prescribed material, lecture presentations and other relevant information will be posted on SUNLearn. Please visit the module pages regularly.

D. PRESCRIBED AND OTHER BOOKS

The prescribed book is:

- Calitz, E., F.K. Siebrits and T.J. Steenekamp (editors). 2020. *Public Economics*. 7th edition. Cape Town: Oxford University Press South Africa.

Print copies of the book are available at academic bookshops in Stellenbosch, and you can order a digital copy from the following link on the publisher's website:

- <https://www.oxford.co.za/book/9780190449186-public-economics-7e-epub>.

The Stellenbosch University Library holds a digital copy of the book. The reading list also include material from other books. Links to these materials will be provided on SUNLearn.

E. MODULE CALENDAR AND LECTURE SESSIONS

The table overleaf contains the dates, themes and presenters of the lecture sessions. These sessions will take place on Tuesdays from 08:30 to 10:30 in Room 225 in the CGW Schumann Building. Note that Session 5 on 14 March will be longer than the others. Any changes to this schedule will be announced in advance. To derive the maximum benefit from the lecture sessions, you should attend regularly, prepare by reading the prescribed writings beforehand, and participate in class discussions.

No	Date	Time	Topic	Presenter
1	07/02	08:30-10:30	Introduction	Siebrits
2	14/02	08:30-10:30	Market failure: Efficiency issues (1)	Siebrits
3	21/02	08:30-10:30	Market failure: Efficiency issues (2)	Siebrits
4	28/02	08:30-10:30	Market failure: Equity issues	Siebrits
–	07/03	–	RECESS	–
5	14/03	08:00-11:00	Public choice and collective action	Freytag
–	21/03	–	PUBLIC HOLIDAY	–
6	28/03	–	Group presentations	–
–	04/04	–	RECESS	–
7	11/04	08:30-10:30	Theory of taxation: Efficiency and equity (1)	Jansen
8	18/04	08:30-10:30	Theory of taxation: Efficiency and equity (2)	Jansen
9	25/04	08:30-10:30	Direct taxation of individuals	Jansen
10	02/05	08:30-10:30	Direct taxation of companies	Jansen
11	09/05	08:30-10:30	Indirect taxation	Jansen
12	16/05	08:30-10:30	Intergovernmental fiscal relations	Jansen

F. ASSESSMENT

Your performance will be assessed by means of four short assignments, a group assignment, an essay, and a final examination. The table below shows the weights of the assessment components.

Component	Percentage of final mark
Short assignments	15
Group assignment	10
Essay	20
Final examination	55
Total	100

You must complete all assessments to pass the module, and must e-mail a medical certificate to the module coordinator within 48 hours of any missed assessment. Note that the completion requirement extends to the essay – you must submit an essay to pass the module.

The pass requirements for the module are as follows:

- A student must obtain a mark of at least 40% for the examination and a final mark of at least 50%. To obtain a distinction, a student must obtain a final mark of at least 75%.
- A student will fail a module and will not be given access to a supplementary examination opportunity if he or she obtains less than 40% in the examination.
- A student who obtains at least 40% in the examination but a final mark of less than 50% qualifies for a supplementary examination opportunity. This opportunity can increase the student's final mark to a maximum of 50%.

The **short assignments** will take the form of short appraisals of approximately 400 words of some of the readings prescribed for certain lecture sessions. You will receive more information about these appraisals in due course. The due dates and the readings you should appraise are as follows:

- Short assignment 1 (21 February 2023): Barr, N. 1989. Social insurance as an efficiency device. *Journal of Public Policy*, 9(1): 59-82.
- Short assignment 2 (14 March 2023): Tullock, G. 2008. Public choice. In *New Palgrave Dictionary of Economics* (2nd edition) (edited by S.N. Durlauf & L.E. Blume). New York: Palgrave Macmillan: 1-8.
- Short assignment 3 (02 May 2023): Devereux, M., A.J. Auerbach, M. Keen, P. Oosterhuis, W. Schön & J. Vella. 2021. *Taxing profit in a global economy*. Oxford: Oxford University Press, 85-130.
- Short assignment 4 (16 May 2023): Mascagni, G. 2016. Is fiscal decentralisation delivering on its promises? A review of the theory and practice in developing countries. *IDS Working Paper 466*. Brighton: Institute of Development Studies and Swiss Agency for Development and Cooperation.

The submission date for the **group assignments** will be 22 March 2023. For this assessment, you will be assigned to groups to prepare PowerPoint presentations on topical aspects of the economic role of the government in South Africa. You will receive more information about the group assignments in due course.

The submission date for the **essays** will be 14 April 2023. The topics are as follows.

1. Can the East Asian developmental state model be implemented in South Africa?
2. Regulatory capture: Theory and evidence.
3. The universal basic income debate in South Africa.

4. The wealth tax debate in South Africa.
5. The fiscal, distributional and public health effects of sin taxes.
6. Subnational tax options in developing countries: A focus on property taxation.

You will be able to select a topic on SUNLearn once registrations for the first semester have closed. The length limitation will be 1 500 words, and a penalty will apply for omission of a word count and deviation of more than 100 words (either side of the required length). We also expect you to present your essay in 1.5 line spacing and a 12-pitch font, and to adhere to all the usual requirements of academic writing. You will be required to use SUNLearn to screen your essay for plagiarism via Turnitin and to submit it electronically. As always, plagiarism will be regarded and handled as a serious offence.

The date for and scope of the **final examination** will be announced in due course. The paper will count 100 marks. Copies of past examination papers will be made available on SUNLearn before this assessment opportunity.

G. STUDY OBJECTIVES OF AND READINGS FOR THE LECTURE SESSIONS

The prescribed readings for the lecture sessions are listed below. Note that some sessions also have readings listed as "Other". We will discuss these readings in the lecture sessions to illustrate the real-world relevance of some theoretical ideas and to introduce you to some empirical methods and results. However, you will not be required to study the readings listed as "Other" for the examination.

Session 1 (7 February 2023) Introduction	
Study objectives	Studying the prescribed material should enable you to: <ul style="list-style-type: none"> • discuss the historical evolution of the economic role of the state; • discuss the role of state capacity in specification of the economic role of the government; and • outline the neoclassical general equilibrium model and discuss its role as a benchmark model of resource allocation.
Prescribed	<ul style="list-style-type: none"> • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 20-37. • Tanzi, V. 1997. The changing role of the state in the economy: A historical perspective. <i>IMF Working Paper WP/97/114</i>. Washington, DC: International Monetary Fund. • World Bank. 1997. <i>World Development Report 1997 – The State in a Changing World</i>. Washington, DC: World Bank: 1-15.
Other	Shleifer, A. 1998. State versus private ownership. <i>Journal of Economic Perspectives</i> , 12(4): 133-150.

Session 2 (14 February 2023) Market Failure: Efficiency Issues (1)	
Study objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • discuss the nature, effects and policy implications of public goods; • discuss the nature, effects and policy implications of mixed goods; • explain the nature and economic effects of externalities; • discuss policy options to ameliorate the effects of externalities; and • discuss the nature, effects and policy implications of merit goods.
Prescribed	<ul style="list-style-type: none"> • Adams, R. & K. McCormick. 1987. Private goods, club goods and public goods as a continuum. <i>Review of Social Economy</i>, 45(2): 192-199. • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 38-64. • Libecap, G.D. 2016. Coasean bargaining to address environmental externalities. <i>NBER Working Paper 21903</i>. Cambridge, MA.: National Bureau of Economic Research: 1-14. • Musgrave, R.A. 2008. Merit goods. In <i>New Palgrave Dictionary of Economics</i> (2nd edition) (edited by S.N. Durlauf & L.E. Blume). New York: Palgrave Macmillan: 1-5. • Sandmo, A. 2008. Public goods. In <i>New Palgrave Dictionary of Economics</i> (2nd edition) (edited by S.N. Durlauf & L.E. Blume). New York: Palgrave Macmillan: 1-16.
Other	<ul style="list-style-type: none"> • Poterba, J. 1996. Government intervention in the markets for education and health care: How and why? <i>NBER Working Paper 4916</i>. Cambridge, MA.: National Bureau of Economic Research.
Session 3 (21 February 2023) Market Failure: Efficiency Issues (2)	
Study objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • distinguish between artificial and natural monopolies; • discuss the nature and effects of natural monopolies; • discuss the policy implications of natural monopolies; and • discuss the nature, effects and policy implications of information asymmetries in insurance markets.
Prescribed	<ul style="list-style-type: none"> • Barr, N, 1989. Social insurance as an efficiency device. <i>Journal of Public Policy</i>, 9(1): 59-82. • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 65-82. • Kessides, I.N. 2005. Infrastructure privatisation and regulation: Promises and perils. <i>World Bank Research Observer</i>, 20(1): 81-108.
Other	<ul style="list-style-type: none"> • Estrin, S. & A. Pelletier, 2018. Privatization in developing countries: What are the lessons of recent experience? <i>World Bank Research Observer</i>, 33(1): 65-102.

Session 4 (28 February 2023) Market Failure: Equity Issues	
Study objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • discuss and apply Nozick's entitlement theory; • explain and apply criteria for assessing welfare effects of policies; • explain the role of targeting in government spending programmes; • discuss the benefit incidence and behavioural approaches to assessing the distributive effects of public spending; and • rationalise and assess conditional cash transfer programmes.
Prescribed	<ul style="list-style-type: none"> • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 83-96. • Das, J., Q-T. Do & B. Özler. 2005. Reassessing conditional cash transfer programs. <i>World Bank Research Observer</i>, 20(1): 57-80. • Hoddinott, J. 2007. Social protection: To target or not to target. <i>IDS Bulletin</i>, 38(3): 90-94. • Van de Walle, D. 1998. Assessing the welfare impacts of public spending. <i>World Development</i>, 26(3): 365-379.
Other	<ul style="list-style-type: none"> • Inchauste, G., N. Lustig, M. Maboshe, C. Purfield & I. Woolard. 2015. The distributional impact of fiscal policy in South Africa. <i>Policy Research Working Paper No. 7194</i>. Washington D.C.: World Bank.
Session 5 (14 March 2023) Public Choice and Collective Action	
Study objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • discuss and assess the properties of majority voting; • discuss the theory of optimal voting rules; • explain the nature and effects of logrolling; • discuss the role of agenda setters in collective decision-making; and • explain the logic of collective action.
Prescribed	<ul style="list-style-type: none"> • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 97-108. • Mueller, D.C. 2003. <i>Public Choice</i>. 3rd edition. Cambridge: Cambridge University Press: 79-146, 472-500.
Other	<ul style="list-style-type: none"> • Buchanan, J.M. & G. Tullock. 1962. <i>The Calculus of Consent</i>. Ann Arbor: University of Michigan Press: 63-84. • Tullock, G. 2008. Public choice. In <i>New Palgrave Dictionary of Economics</i> (2nd edition) (edited by S.N. Durlauf & L.E. Blume). New York: Palgrave Macmillan: 1-8. • Olson, M. 1965. <i>The Logic of Collective Action</i>. Cambridge: Harvard University Press.

Session 7 (11 April 2023) Theory of Taxation: Efficiency and Equity (1)	
Study objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • explain the meaning of all relevant tax terminology; • discuss the properties of a good tax; • analyse tax incidence in partial and general equilibrium frameworks; • use indifference curve analysis to explain excess burden; • use the consumer surplus approach to determine the magnitude of excess burden; • state the Ramsey rule and explain its applicability; and • explain the theory of optimal taxation.
Prescribed	<ul style="list-style-type: none"> • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 221-265. • Rosen, H.S. & T. Gayer. 2014. <i>Public Finance</i>. 10th edition. New York: McGraw-Hill Irwin: 296-321; 347-353.
Other	<ul style="list-style-type: none"> • Rosen, H.S. & T. Gayer. 2014. <i>Public Finance</i>. 10th edition. New York: McGraw-Hill Irwin: 324-346.
Session 8 (18 April 2023) Theory of Taxation: Efficiency and Equity (2)	
Study objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • explain the meaning of all relevant tax terminology; • discuss the properties of a good tax; • analyse tax incidence in partial and general equilibrium frameworks; • use indifference curve analysis to explain excess burden; • use the consumer surplus approach to determine the magnitude of excess burden; • state the Ramsey rule and explain its applicability; and • explain the theory of optimal taxation.
Prescribed	<ul style="list-style-type: none"> • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 221-265. • Rosen, H.S. & T. Gayer. 2014. <i>Public Finance</i>. 10th edition. New York: McGraw-Hill Irwin: 296-326, 347-353.
Other	<ul style="list-style-type: none"> • Rosen, H.S. & T. Gayer. 2014. <i>Public Finance</i>. 10th edition. New York: McGraw-Hill Irwin: 324-346.

Session 9 (25 April 2023) Direct Taxation Of Individuals	
Study objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • define and explain the comprehensive income tax base; • explain the personal income tax base and progressiveness in personal income taxation; • evaluate the personal income tax in terms of efficiency and equity; • explain the effect of direct taxation on labour supply and saving; and • evaluate the impact of progressive taxes on inequality.
Prescribed	<ul style="list-style-type: none"> • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 266-291. • Duncan, D. & K.S. Peter. 2016. Unequal inequalities: Do progressive taxes reduce income inequality? <i>International Tax and Public Finance</i>, 23(4): 762-783.
Other	<ul style="list-style-type: none"> • Kemp. J.H. 2019. The elasticity of taxable income: The case of South Africa. <i>South African Journal of Economics</i>, 87(4): 417-449.
Session 10 (2 May 2023) Direct Taxation of Companies	
Study objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • define the company tax base in the South African context; • use the norms of efficiency and equity (amongst others) to evaluate company taxation; • discuss tax base erosion and profit shifting; and • discuss options to tax business profit.
Prescribed	<ul style="list-style-type: none"> • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 292-297, 301-308. • Devereux, M., A.J. Auerbach, M. Keen, P. Oosterhuis, W. Schön & J. Vella. 2021. <i>Taxing profit in a global economy</i>. Oxford: Oxford University Press: 85-173.
Other	<ul style="list-style-type: none"> • Reynolds, H. & L. Wier. 2018. Big and 'unprofitable': How 10 per cent of multinational firms do 98 per cent of profit shifting. <i>WIDER Working Paper No. 2018/111</i>. Helsinki: United Nations University (World Institute for Development Economics Research).

Session 11 (9 May 2023) Indirect Taxation	
Study objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • distinguish between different indirect taxes in South Africa; • discuss key issues in the design of value-added tax; • evaluate the value-added tax according to the norms of revenue-raising capabilities, efficiency and equity; and • discuss value-added tax reform options for developing countries.
Prescribed	<ul style="list-style-type: none"> • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 338-348. • Crossen, S. 2015. Mobilizing VAT revenues in African countries. <i>International Tax and Public Finance</i>, 22(6): 1077-1108. • Warwick, R., T. Harris, D. Phillips, M. Goldman, J. Jellema, G. Inchauste & K. Goraus-Tanska. 2022. The redistributive power of cash transfers vs VAT exemptions: A multi-country study. <i>World Development</i>, 151: 1-20.
Session 12 (16 May 2023) Intergovernmental Fiscal Relations	
Study objectives	<p>Studying the prescribed material should enable you to:</p> <ul style="list-style-type: none"> • explain the economic rationale for sub-national governments and compare the merits of fiscal decentralisation and centralisation; • discuss the Tiebout model and its relevance for intergovernmental fiscal systems; • discuss borrowing powers and debt management at subnational level; • describe the assignment of revenue sources and expenditure functions to the national, provincial and local spheres of government in South Africa; • consider the practice of fiscal decentralisation in developing countries; and • distinguish between different kinds of intergovernmental grants and explain the conditions under which each could be used.
Prescribed	<ul style="list-style-type: none"> • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 449-486. • Mascagni, G. 2016. Is fiscal decentralisation delivering on its promises? A review of the theory and practice in developing countries. <i>IDS Working Paper 466</i>. Brighton: Institute of Development Studies and Swiss Agency for Development and Cooperation.