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DEPARTMENT OF ECONOMICS
HONOURS PROGRAMME IN ECONOMICS
PUBLIC ECONOMICS 771
(2020)

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INTERNAL MODERATOR:

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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 introduction to three key 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;
- understand theoretical ideas 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 economic South Africa and other developing countries at the microeconomic level.

B. PRESENTERS' CONSULTATION HOURS

Dr Siebrits and Prof Jansen will be available for consultation by appointment. Please use the email addresses or telephone numbers 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. You should visit the module pages regularly for updates.

D. MODULE CALENDAR AND LECTURE SESSIONS

The table below contains the dates, themes and presenters of the lecture sessions. Most sessions will take place on Thursdays from 08:30 to 10:30 in Room 2020 in the Schumann Annex Building. Any changes to the lecture schedule will be announced in advance. To derive the maximum benefit from the lecture sessions, you should attend regularly, be on time, and prepare by reading the prescribed writings beforehand.

Public Economics 771 (2020)

Sessions				
No	Date	Time	Topic	Presenter
1	30-07	08:30-10:30	Introduction	Siebrits
2	06-08	08:30-10:30	Market failure: Efficiency issues (1)	Siebrits
3	13-08	08:30-10:30	Market failure: Efficiency issues (2)	Siebrits
4	20-08	08:30-10:30	Market failure: Equity issues	Siebrits
5	27-08	08:30-10:30	Government failure	Siebrits
6	03-09	08:30-10:30	Theory of taxation: Efficiency and equity (1)	Jansen
7	10-09	08:30-12:30	Theory of taxation: Efficiency and equity (2)	Jansen
—	17-09	—	RECESS	—
—	24-09	—	No class (public holiday)	—
8	01-10	08:30-12:30	Direct taxation of individuals	Jansen
9	08-10	08:30-12:30	Direct taxation of companies	Jansen
10	15-10	08:30-12:30	Indirect taxation	Jansen
11	22-10	08:30-12:30	Public choice and collective action	Freytag
12	29-10	08:30-12:30	Intergovernmental fiscal relations	Jansen

E. ASSESSMENT

Your performance will be assessed by means of a test, a group assignment, an essay, and a final examination. You must complete all the assessment components to pass the module. The weights of the four assessment components are as follows:

Component	Percentage of final mark
Test	20
Group assignment	10
Essay	20
Examination	50
Total	100

The **test** will take place on 3 September, and will cover the work of the first four sessions. *Students who cannot write the test on that day will have to take another test on the first four sessions on the same day they write the Public Economics examination. Students who write the test on 3 September will not be allowed to write this second test to improve their marks.* Copies of past test papers will be made available on SUNLearn before this assessment opportunity.

The submission date for the **group assignments** will be 25 September 2020. For this assessment you will be assigned to groups that will prepare PowerPoint presentations and short memoranda on topical aspects of the economic role of the government in South Africa. We will provide more information about the group assignment in due course.

The submission date for the **essays** will be 9 October 2020. The topics are as follows.

1. A critical discussion of the argument for public provision of merit goods.
2. Should South Africa replace its current social grants with a universal basic income grant system?
3. Is economic theory useful for explaining and combatting corruption?
4. A discussion of South African tax policy in the aftermath of the COVID-19 pandemic.
5. Can insights from behavioural economics be used to improve tax compliance?
6. Does fiscal decentralisation improve the efficiency of public service delivery? Discuss critically.

You will be able to select a topic on SUNLearn once registrations for the second 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). 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.

F. 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 will be available at all the academic bookshops in Stellenbosch. In addition, you can purchase an e-pub version of the book from the publisher's website (<https://www.oxford.co.za/book/9780190449186-public-economics-7e-epub>) or other online platforms.

The prescribed and other readings also include material from other books. Links to these materials will be available on SUNLearn.

G. STUDY OBJECTIVES AND READINGS FOR EACH SESSION

The prescribed readings are listed below. Note that some sessions also have readings listed as "Other". We will discuss these readings in class to illustrate the real-world relevance of some theoretical ideas and to introduce you to some empirical methods and results. However, you will be tested or examined only on the prescribed readings.

Session 1 (30 July 2020)	
Introduction	
Study objectives	<p>Once you have studied the prescribed material, you should be able to:</p> <ul style="list-style-type: none"> • Discuss the evolution of the economic role of the government; • Use theoretical ideas about market failure and non-market failure to discuss the economic role of the government; and • Discuss and assess the 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: The International Monetary Fund. • Wolf, C. 1987. Market and non-market failures: Comparison and assessment. <i>Journal of Public Policy</i>, 7(1): 43-70.
Other	<ul style="list-style-type: none"> • Burger, P. 2014. Facing the conundrum: How useful is the "developmental state" concept in South Africa? <i>South African Journal of Economics</i>, 82(2): 1-22.
Session 2 (6 August 2020)	
Market Failure: Efficiency Issues (1)	
Study objectives	<p>Once you have studied the prescribed material, you should be able to:</p> <ul style="list-style-type: none"> • Explain the nature and economic effects of public goods, and discuss policy with regard to the resulting market failures; • Explain the nature and economic effects of mixed goods, and discuss policy with regard to the resulting market failures; • Explain the nature and economic effects of externalities, and discuss policy with regard to the resulting market failures; and • Discuss the notion of "libertarian paternalism" and its potential to deal with internalities.

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. • Libecap, G.D. 2016. Coasean bargaining to address environmental externalities. <i>NBER Working Paper No. 21903</i>. Cambridge, MA: National Bureau of Economic Research: 1-14. • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 38-64. • Sandmo, A. 2008. Public goods. In <i>The New Palgrave Dictionary of Economics</i> (2nd edition) (edited by S.N. Durlauf & L.E. Blume). New York: Palgrave Macmillan: 1-16. • Thaler, R.H. & C.R. Sunstein, 2003. Libertarian paternalism. <i>American Economic Review</i>, 93(2): 175-179.
Other	<ul style="list-style-type: none"> • Poterba, J. 1996. Government intervention in the markets for education and health care: How and why? In <i>Individual and Social Responsibility: Child Care, Education, Medical Care and Long-Term Care in America</i> (edited by V.R. Fuchs). Chicago: University of Chicago Press: 277-308.
<p>Session 3 (13 August 2020) Market Failure: Efficiency Issues (2)</p>	
Study objectives	<p>Once you have studied the prescribed material, you should be able to:</p> <ul style="list-style-type: none"> • Explain the nature and economic effects of network goods, and discuss policy with regard to the resulting market failures; • Explain the nature and economic effects of natural monopolies, and discuss policy with regard to the resulting market failures; and • Explain the nature and economic effects of insurance, and discuss policy with regard to the insurance market failures.
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. • Klemperer, P. 2008. Network goods. In <i>The New Palgrave Dictionary of Economics</i> (2nd edition) (edited by S.N. Durlauf & L.E. Blume). New York: Palgrave Macmillan: 1-4.
Other	<ul style="list-style-type: none"> • Arnott, R., B. Greenwald & J.E. Stiglitz. 1994. Information and economic efficiency. <i>Information Economics and Policy</i>, 6(1): 77-88. • 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 (20 August 2020) Market Failure: Equity Issues	
Study objectives	<p>Once you have studied the prescribed material, you should be able to:</p> <ul style="list-style-type: none"> • Discuss Nozick's entitlement theory and apply it to South Africa; • Explain and apply the Pareto and Bergson criteria for assessing welfare effects of public policy; • 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, DC: The World Bank.
Session 5 (27 August 2020) State Capacity, the Bureaucracy and Corruption	
Study objectives	<p>Once you have studied the prescribed material, you should be able to:</p> <ul style="list-style-type: none"> • Discuss and nature and importance of state capacity; • Discuss the factors that determine service delivery by government bureaucrats; and • Discuss the economic effects of corruption.
Prescribed	<ul style="list-style-type: none"> • Aidt, T.S. 2003. Economic analysis of corruption: A survey. <i>Economic Journal</i>, 113(491): F632-F652. • Pepinsky, T.B., J.H. Pierskalla & A. Sacks. 2017. Bureaucracy and service delivery. <i>Annual Review of Political Science</i>, 20: 249-268. • World Bank. 1997. <i>World development report 1997 – The state in a changing world</i>. Washington, DC: The World Bank: 1-15.
Other	<ul style="list-style-type: none"> • Besley, T. 2005. Political selection. <i>Journal of Economic Perspectives</i>, 19(3): 43-60. • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 108-116.

Sessions 6 and 7 (3 September 2020 and 10 September 2020) Theory Of Taxation: Efficiency And Equity (1 and 2)	
Study objectives	<p>Once you have studied the prescribed material, you should be able 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 (1 October 2020) Direct Taxation Of Individuals	
Study objectives	<p>Once you have studied the prescribed material, you should be able 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 • Describe the impact of inflation on the burden of 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: 266-291. • Feldstein, M. 2006. Effects of taxes on economic behavior. <i>National Tax Journal</i>, 61(1): 131-139. • Maboshe, M. & I. Woolard. 2018. Revisiting the impact of direct taxes and transfers on poverty and inequality in South Africa. <i>WIDER Working Paper No 2018/79</i>. Helsinki: United Nations University (World Institute for Development Economics Research).
Other	<ul style="list-style-type: none"> • Kemp. J.H. 2017. The elasticity of taxable income: The case of South Africa. <i>South African Journal of Economics</i>, 87(4): 417-449.

Session 9 (8 October 2020) Direct Taxation Of Companies	
Study objectives	<p>Once you have studied the prescribed material, you should be able 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 to evaluate company taxation; • Evaluate the role of tax incentives; • Discuss tax base erosion and profit shifting from a developing country perspective; 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: 292-308. • Devereux, M. 2019. How should business profit be taxed? Some thoughts on conceptual developments during the lifetime of the IFS. <i>Fiscal Studies</i>, 40(4): 591-619. • Oguttu, A.W. 2015. Tax base erosion and profit shifting in Africa - Part 1: What should Africa's response be to the OECD BEPS Action Plan? <i>Comparative and International Law Journal of Southern Africa</i>, 48(3): 516-553.
Other	<ul style="list-style-type: none"> • Reynolds, H. & L. Wier. 2016. Estimating profit shifting in South Africa using firm-level tax returns. <i>WIDER Working Paper No 2016/128</i>. Helsinki: United Nations University (World Institute for Development Economics Research). • United Nations Economic Commission for Africa. 2018. <i>Base erosion and profit shifting in Africa: reforms to facilitate improved taxation of multinational enterprises</i>. Addis Ababa: United Nations Economic Commission for Africa.
Session 10 (15 October 2020) Indirect Taxation	
Study objectives	<p>Once you have studied the prescribed material, you should be able 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. • Cnossen, S. 2015. Mobilizing VAT revenues in African countries. <i>International Tax and Public Finance</i>, 22(6): 1077-1108. • Van Oordt, M. 2018. Zero-rating versus cash transfers under the VAT. <i>Fiscal Studies</i>, 39(3): 489-515.

Session 11 (22 October 2020) Public Choice And Collective Action	
Study objectives	<p>Once you have studied the prescribed material, you should be able 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 log-rolling; • 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. • Olson, M. 1965. <i>The Logic of Collective Action</i>. Cambridge: Harvard University Press.
Session 12 (29 October 2020) Intergovernmental Fiscal Relations	
Study objectives	<p>Once you have studied the prescribed material, you should be able 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 the issues in respect of borrowing powers and debt management at subnational level; • Describe the assignment of revenue sources and expenditure functions to national, provincial and local spheres of government in South Africa; • Provide a critique of fiscal centralisation trends in South Africa; 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. & H. Essop. 2013. Fiscal centralisation in a federal state: The South African case. <i>Southern African Business Review</i>, 17(3): 131-155. • Calitz, E., F.K. Siebrits & T.J. Steenekamp. 2020. <i>Public Economics</i>. 7th edition. Cape Town: Oxford University Press: 449-486.