



Department of Economics

**Economics 381
(12084 - 381)**

**Institutional Economics
Environmental Economics
Public Economics**

**Public Economics
Sub-Module Outline
2022 (Third Term)**

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1. INTRODUCTION

Welcome to the Public Economics sub-module of Economics 381. I trust that you will find it interesting and useful. This document contains the sub-module outcomes, lists the prescribed material, and provides a provisional lecture schedule with the study objectives and prescribed reading of each session in the third term. Please use it with the general module framework for Economics 381, which contains important information about assessment and administrative issues.

2. SUB-MODULE AIM AND OUTCOMES

Expenditure by the public sector amounts to more than one-third of South Africa's GDP. Although highly significant, this number is not a complete measure of the extent of the public sector's involvement in the South African economy. The public sector also affects private economic activity by means of regulation and the financing of its expenditures. Against this background, the first part of the Public Economics part of the module focuses on the following questions:

- Why does the public sector play such a large role in mixed market economies such as that of South Africa?
- What are the implications of such a large public sector and of such extensive public sector involvement for the economy and its participants?

After the successful completion of this part of the module you should be able to:

- Outline the efficiency and equity arguments for government intervention in market economies.
- Discuss the behaviour of voters, politicians and government officials.
- Explain the political and other factors that often cause the failure of government interventions in market economies.

The knowledge gained by studying the contents of this part of the module makes it possible to explain and analyse the effects of the role of the government in the mixed market economy.

3. PRESCRIBED MATERIAL

The following book is prescribed for this part of the module:

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

The textbook is available in print and e-book formats. You can order the e-book from various online platforms or from the publisher's website at:

- <https://www.oxford.co.za/shop/#?search=Public%20Economics&size=12&sortby=titleasc&page=1&booktype=ebook>.

Other resources may be made available from time to time. I will provide information about such resources on SUNLearn.

4. MODULE CONVENOR AND LECTURER IN THE THIRD TERM

Name	Office	E-mail address	Telephone number
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Please send me an email to arrange an appointment if you would like to discuss administrative or content-related aspects of the course.

5. LECTURE TIMES

The lectures will take place on the following days during the third term:

Day	Time	Venue
Wednesday	13:00-13:50	Van der Sterr 1003
Friday	10:00-10:50	Van der Sterr 1003

6. LECTURE SCHEDULE

Session 1 (20 July 2022) Introduction: The public sector in the economy	
Study objectives	This session should enable you to: <ul style="list-style-type: none"> • Outline the study field of public economics; • Distinguish between the main institutional categories of the public sector; • Give an overview of the different views of the economic role of governments; • Discuss features of and trends in the size and composition of the public sector in South Africa; and • Discuss aspects of the relationship between the public sector and the rest of the economy.
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: 3-19.
Session 2 (22 July 2022) Benchmark model of the economy (1)	
Study objectives	This session should enable you to: <ul style="list-style-type: none"> • Outline the assumptions of the two-sector benchmark model; • Explain what a Pareto-optimal allocation of resources is; and • Discuss the three conditions for a general equilibrium in the benchmark model.
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: 20-27.

Session 3 (27 July 2022) Benchmark model of the economy (2)	
Study objectives	<p>The session should enable you to:</p> <ul style="list-style-type: none"> • Distinguish between allocative efficiency, X-efficiency, and dynamic efficiency; • Discuss the categories of market failure; • Explain the three functions of governments; and • Distinguish between direct and indirect forms of government intervention.
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: 27-37.
Session 4 (29 July 2022) Public goods and services	
Study objectives	<p>This session should enable you to:</p> <ul style="list-style-type: none"> • Distinguish between private and pure public goods and services; • Use supply and demand analysis to derive the conditions for the optimal allocation of private goods and services; • Use supply and demand analysis to derive the conditions for the optimal allocation of pure public goods and services; • Explain why markets cannot supply pure public goods and services; • Discuss government supply of pure public goods and services; and • Explain the distinction between the physical production and the financing of public goods and services.
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: 38-46.
Session 5 (3 August 2022) Mixed goods and services	
Study objectives	<p>This session should enable you to:</p> <ul style="list-style-type: none"> • Define mixed goods and services; • Discuss the supply of mixed goods and services; • Define merit goods and services; and • Discuss the supply of merit goods and services.
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: 46-48.

Session 6 (5 August 2022) Externalities (1)	
Study objectives	<p>This session should enable you to:</p> <ul style="list-style-type: none"> • Explain the concept of external effects ("externalities"); • Identify the most important types of externalities; • Use supply and demand analysis to explain the effects of negative and positive externalities.
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: 48-51.
Session 7 (10 August 2022) Externalities (2)	
Study objectives	<p>This session should enable you to:</p> <ul style="list-style-type: none"> • Discuss policy options regarding externalities; • Provide examples of global and regional public goods; and • Discuss policy implications of global and regional public goods.
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: 52-64.
Session 8 (12 August 2022) Allocative efficiency, imperfect competition and regulation (1)	
Study objectives	<p>This session should enable you to:</p> <ul style="list-style-type: none"> • Discuss the social costs of monopoly; • List the characteristic features of natural monopolies; and • Discuss conventional policy approaches to natural monopolies.
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: 65-74.
Session 9 (17 August 2022) Allocative efficiency, imperfect competition and regulation (2)	
Study objectives	<p>This session should enable you to:</p> <ul style="list-style-type: none"> • Outline the "new model" for governing natural monopolies; • Discuss the unbundling of natural monopolies; • Discuss reasons for and effects of privatising state monopolies; • Discuss the nature and effects of the best-known forms of economic regulation; and • Discuss obstacles to economic regulation in 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: 76-81.

Session 10 (19 August 2022) Equity and social welfare (1)	
Study objectives	<p>This session should enable you to:</p> <ul style="list-style-type: none"> • Distinguish between the Pareto criterion and the Bergson criterion for welfare improvements; • Discuss Nozick's entitlement theory and its relevance to economic justice in South Africa; and • Outline Pareto-compatible justifications for redistribution.
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: 83-88.
Session 11 (24 August 2022) Equity and social welfare (2)	
Study objectives	<p>This session should enable you to:</p> <ul style="list-style-type: none"> • Distinguish between the cardinal and ordinal social welfare functions; • Discuss the concept of the "welfare maximum"; and • Discuss the efficiency implications of policies to redistribute income from the rich to the poor.
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: 88-96.
Session 12 (26 August 2022) Public choice theory (1)	
Study objectives	<p>This session should enable you to:</p> <ul style="list-style-type: none"> • Discuss the advantages and disadvantages of the unanimity voting rule; • Discuss the Rawlsian theory of justice and its relevance to political developments in South Africa; and • Explain the median voter theory and indicate its potential strengths and weaknesses.
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: 97-102.
Session 13 (31 August 2022) Public choice theory (2)	
Study objectives	<p>This session should enable you to:</p> <ul style="list-style-type: none"> • Discuss Arrow's impossibility theorem; • Explain whether logrolling is an efficient means of improving the outcomes of a majority voting system; and • Discuss the optimal voting rule theory.
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: 102-108.

Session 14 (2 September 2022) Government failure	
Study objectives	This session should enable you to: <ul style="list-style-type: none">• Discuss maximising behaviour by politicians and its contribution to government failure;• Discuss maximising behaviour by bureaucrats and its contribution to government failure; and• Explain the concept of rent-seeking and its consequences.
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: 108-116.