



## PUBLIC FINANCE

|                                |  |
|--------------------------------|--|
| <b>Course code</b>             | <i>FIN104</i>  |
| <b>Course title</b>            | <i>Public Finance</i>  |
| <b>Type of course</b>          | <i>Compulsory</i>  |
| <b>Stage of study</b>          | <i>Undergraduate</i>   |
| <b>Department in charge</b>    | <i>Undergraduate school</i>  |
| <b>Year of study</b>           | <i>4<sup>th</sup></i>  |
| <b>ECTS</b>                    | <i>6; 24 hours of lectures and 24 seminars, 112 hours of individual work, 2 hours of consultations</i> |
| <b>Coordinating lecturer</b>   | <i>Dr. Aras Zirgulis</i>   |
| <b>Studies form</b>            | <i>Full-time classes</i>   |
| <b>Prerequisites</b>           | -  |
| <b>Language of instruction</b> | <i>English</i>   |

### Course description

This course is a one-semester introduction to Public finance. Public finance is the branch of economics that focuses on the role of government in the economy. In this course we will study the role and the size of public sector, including the rationale for public sector existence (public goods, market failures) and government interventions (taxation policy, income redistribution).

Students will become acquainted with the theoretical foundations of how the government affects the economy, in addition to being exposed to a variety of empirical research. Students will gain experience in critical thinking and will learn about the theoretic basis of the economic arguments used by politicians.

### Aims of the course

This course aims to introduce to students the main concepts of Public finance: the role of the state in the economy, public goods and market failures, policy of taxation and income redistribution. Attention is also given to fiscal policy issues.

| <b>Subject learning outcomes</b>  | <b>Study methods</b>  | <b>Assessment methods</b> |
|---|---|---------------------------|
| SLO1. Analyze the concepts of public goods and market failures and their cures                                | Lectures, seminars, individual study, self-study in groups                    | Midterm test, final exam  |
| SLO2. Apply various socio-economic models to the evaluation of the public policy questions                    | Lectures, seminars, solving exercises, self-study in groups                   | Midterm test, final exam  |
| SLO3. Discuss the reasons for government intervention in the economy as well as different types of regulation | Lectures, seminars, self-study in groups                                      | Midterm test, final exam  |
| SLO4. Evaluate and compare different policies of taxation and income redistribution                           | Lectures, seminars, self-study  | Midterm test, final exam  |
| SLO5. Analyze the issues in managing the fiscal policy  | Lectures, seminars, solving exercises, individual study, self-study in groups | Midterm test, final exam  |
| SLO6. Learn the mechanics of sovereign and municipal bond markets   | Lectures, seminars, solving exercises, self-study                             | Midterm test, final exam  |

### Quality management

The lecturer assures a variety of teaching and testing methods. The feedback from students is always highly valued and appreciated.

### Cheating prevention

The ISM regulations on academic ethics, including cheating (see: *ISM regulations*) are fully applied in the course during the entire semester



| Meeting           | TOPIC  | IN-CLASS HOURS |           | READINGS   |
|-------------------|--|----------------|-----------|------------|
|                   |  | Lectures       | Practice  |            |
| 1                 | Lecture #1<br>Course Introduction/Fiscal Policy/ Public debt | 2              | 2         | Ch. 4      |
| 2                 | Lecture #2<br>Externalities                                  | 2              | 2         | Ch 5-6     |
| 3                 | Lecture #3<br>Public Goods                                   | 2              | 2         | Ch 7       |
| 4                 | Lecture #4<br>Cost-Benefit analysis                          | 2              | 2         | Ch. 8      |
| 5                 | Lecture #5<br>Role of government in Education                | 2              | 2         | Ch. 11     |
| 6                 | Lecture #6<br>Role of government in Health and Pensions      | 2              | 2         | Ch. 12, 14 |
| 7                 | #7<br>Midterm (covers material from lectures 1-5)            | 2              | 2         |            |
| 8                 | Lecture #8<br>Tax Incidence                                  | 2              | 2         | Ch. 19     |
| 9                 | Lecture #9<br>Optimal Taxation                               | 2              | 2         | Ch. 20     |
| 10                | Lecture #10<br>Corporate Taxation                            | 2              | 2         | Ch. 24     |
| 11                | Lecture #11<br>Tax Reform                                    | 2              | 2         | Ch. 25     |
| 12                | Lecture #12<br>Tax Competition and Fiscal Federalism         | 2              | 2         | Ch. 10     |
| <b>Total:</b>     |  | <b>24</b>      | <b>24</b> |            |
| <b>Final exam</b> |  |                |           |            |

#### Assessment methods

| TYPE                | TOTAL HOURS | EVALUATION, % |
|---------------------|-------------|---------------|
| Debate Presentation | 30          | 20            |
| Participation       |             | 10            |
| Mid-term exam       | 30          | 30            |
| Final Exam          | 52          | 40            |
| Consultations       | 2           |               |
| <b>Total:</b>       | <b>114</b>  | <b>100</b>    |

#### Debate Presentations

For the presentation topics each week I will assign a policy question. The two groups may think of themselves as lobbyists trying to argue for or against the policy. During your presentation you will present arguments for your position, which you must support with evidence and/or theory. This will be a competition, and the group which does a more convincing job will always get a higher score. After your opponents have done their presentations, it would make sense for you to ask them hard questions, as this will help you. Presentations will last approx. 10 minutes. If you go longer than 12 minutes you will be stopped.

In addition, each group will present me with a one page summary of their arguments, including their evidence and references. (look up "executive summary" as a guide). The work may be split up so that some members of the group work on the summary and some do the presentation.



### **End-semester individual written final exam**

The exam counts towards 40% of the final grade. It is a closed-book test which includes multiple choice questions and open questions. It tests conceptual, analytical, and numerical skills. The exam will be based on all topics after the midterm.

In case of a negative final grade, students are allowed a re-sit exam. It will cover all course material. The weight of a re-sit is **70%**. Coursework cannot be rewritten but its evaluation (if positive) is not annulled.

### **Teaching methods**

The course is taught in English and is structured as a combination of lectures, in-class activities, case studies, and student debate presentations. It requires a substantial amount of preparation by the students and active involvement during class.

### **Required Reading**

1. Gruber, Jonathan. *Public finance and Public Policy*. Macmillan, 2004.

### **Supplemental readings**

1. Holcombe R. *Public Sector Economics: The Role of Government in the American Economy*. Englewood Cliffs, NJ: Prentice Hall, 2006.
2. Stiglitz, J. *Economics of the Public Sector* (W.W. Norton 2000).
3. Barr, N. *Economics of the Welfare state* (Stanford university press 1998).
4. Harvey S. Rosen, *Public Finance* (McGraw-Hill, 2010, 9<sup>th</sup> edition or any other edition);