

PUBLIC ECONOMICS

Dual Degree in Philosophy, Politics, Law and Economics & Bachelor in Data and Business Analytics PPLEDBA SEP-2023 PUEC-PPLD.3.M.A

Area Economics

Number of sessions: 30

Academic year: 23-24

Degree course: THIRD

Number of credits: 6.0

Semester: 1^o

Category: COMPULSORY

Language: English

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JAVIER CAPAPÉ AGUILAR

Javier Capapé, Ph.D. is the Director of the Sovereign Wealth Research program at the IE Center for the Governance of Change and an Adjunct Professor at IE University, where he teaches Public Economics, Industrial Organization and Strategy, and History of Economic Thought. Co-author of 'Sovereign Wealth Funds' (2022, Columbia University Press) with Prof. Adam Dixon and Prof. Patrick Schena, Capapé earned his Ph.D. from ESADE Business School and the University of Illinois (USA).

Prof. Capapé has been a Consultant at the United Nations Environment Program on Sovereign Wealth Funds and Sustainable Development Goals. Since 2012, he is a SovereignNET Research Affiliate at The Fletcher School (Tufts University) and Co-Editor of the Sovereign Wealth Funds Reports series, an initiative backed by ICEX. He has published in top academic journals such as the Columbia University Press, Academy of Management Perspectives and Oxford University Press. His research has been regularly cited in international media (including Financial Times, The Economist, Wall Street Journal, and Reuters).

Capapé also works advising on sovereign wealth strategies to institutional clients including governments, sovereign funds, corporations, tech-based startups, real estate managers, intelligence companies, venture capital and private equity fund managers.

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SUBJECT DESCRIPTION

The presence of governments and their influence on the development of economies and societies is undeniable and changing. With the rise of state capitalism, the mixed economic model followed in multiple countries (from China to Russia, through Singapore or the Gulf Cooperation Council countries), to understand the role of the state in the economy stands as a critical task for business managers, policymakers, lawyers and politicians, globally. Beyond these traditional state-centered economies, Western economies face the post-pandemic recovery based on a strong participation of the public sector, and increasing geopolitical tensions. What will be the implications? What are the reasons that support such activities?

This course will help the student to understand daily newspapers fronts when talking about corporate taxation, education policies, or the failures of both markets and governments. It provides necessary tools and understanding of the role of the public sector and governments interacting with corporations and individuals.

Following rigorous economic theory, matched with empirical research evidence and policy analysis, Public Economics will explore in-depth the implications of externalities, the normative role of governments to attain social welfare and solve inequalities, the failures of markets and governments, or the critical incidence of taxation on individual and corporate decisions.

The course will be seasoned with the concepts developed by recent Nobel Prize winners such as the idea of "common goods" (Elinor Ostrom) or the "economics of common good" (Jean Tirole). These topics would allow students to use their acquired concepts and experiences for enriching discussions.

LEARNING OBJECTIVES

Students will incorporate important concepts and understand realities linked to the influence of governments in the economy. These will help students to understand regulations, interact with governments, understand collective actions and incentives, as well as to identify risks and opportunities linked to public goods, and anticipate market and nonmarket outcomes. Critically, this course will help to understand the secondary effects of taxation ("incidence") and how proposed social and economic policy reforms should take this important concept into consideration.

TEACHING METHODOLOGY

IE University teaching method is defined by its collaborative, active, and applied nature. Students actively participate in the whole process to build their knowledge and sharpen their skills. Professor's main role is to lead and guide students to achieve the learning objectives of the course. This is done by engaging in a diverse range of teaching techniques and different types of learning activities such as the following:

Learning Activity	Weighting	Estimated time a student should dedicate to prepare for and participate in
Lectures	33.33 %	50.0 hours
Discussions	16.67 %	25.0 hours
Exercises in class, Asynchronous sessions, Field Work	13.33 %	20.0 hours

Group work	16.67 %	25.0 hours
Individual studying	20.0 %	30.0 hours
TOTAL	100.0 %	150.0 hours

PROGRAM

INTRODUCTION

SESSIONS 1 - 2 (LIVE IN-PERSON)

Why study public economics?

The four questions of public finance: when to intervene, how, what are the effects of alternative interventions?

Why do governments do what they do?

Theoretical Tools

- Indifference curves, constrained utility maximization, marginal utility, MRS (marginal rate of substitution).
- Price changes: Income and substitution effects.
- How to build the demand function. The constrained utility maximization.
- Demand curves: elasticity of demand.
- Supply curves.
- Equilibrium. Consumer surplus. Producer surplus. Social surplus.

Book Chapters: Jonathan Gruber. (2016). Public Finance and Public Policy - Chapter 1 (See Bibliography)

Book Chapters: Jonathan Gruber. (2016). Public Finance and Public Policy - Chapters 2-3 (See Bibliography)

SESSIONS 3 - 4 (LIVE IN-PERSON)

Theoretical Tools

- Equilibrium and Social welfare.
- First welfare theorem: no externalities, perfect info, perfect competition.
- Second Fundamental Theorem of Welfare.
- Social Welfare Functions: Utilitarian and Walrasian (Gruber, pp. 52-57).

Problem Set - Solutions

SESSIONS 5 - 6 (LIVE IN-PERSON)

Externalities:

- Roles of the government: Externality theory.
- Definition, types: production and consumption, cases.
- PMC v SMC, PMB v SMB.

- Private-sector solutions to externalities: The Coase Theorem
 - Assignment problem
 - Holdout problem
 - Free rider problem
- Public solutions to externalities.
 - Distinctions between price and quantities approaches to addressing externalities.
 - The role of uncertainty
 - The pollution reduction model

Book Chapters: Jonathan Gruber. (2016). Public Finance and Public Policy - Chapter 5 (See Bibliography)

SESSIONS 7 - 8 (LIVE IN-PERSON)

Externalities:

- Roles of the government: Externality theory.
- Definition, types: production and consumption, cases.
- PMC v SMC, PMB v SMB.
- Private-sector solutions to externalities: The Coase Theorem
 - Assignment problem
 - Holdout problem
 - Free rider problem
- Public solutions to externalities.
 - Distinctions between price and quantities approaches to addressing externalities.
 - The role of uncertainty
 - The pollution reduction model

Problem Set - Solutions

SESSIONS 9 - 10 (LIVE IN-PERSON)

Economics Lab

Public Goods

- Basic concepts
- Pure and impure public goods
- Optimal provision.
- Free-riders
- Crowd-out

Book Chapters: Jonathan Gruber. (2016). Public Finance and Public Policy - Chapter 6 (See Bibliography)

SESSIONS 11 - 12 (LIVE IN-PERSON)

Public Goods

Political Economy

- Lindahl Pricing
- Preference Revelation Problem
- Preference Knowledge Problem
- Preference Aggregation Problem
- Majority voting and Arrow's Impossibility Theorem
- Median voter theory
- Public choice theory
 - Basic theory (Gruber Chapter 7)
 - Pure and impure public goods
 - Optimal provision.
 - Free-riders
 - Crowd-out

SESSIONS 13 - 14 (LIVE IN-PERSON)

Midterm Exam

SESSIONS 15 - 16 (LIVE IN-PERSON)

Midterm Exam - Solutions

Group Work - Final Presentation Launch

SESSIONS 17 - 18 (LIVE IN-PERSON)

Taxation - How it works

- Types of taxation.
- Earnings, personal income, wealth, consumption, corporate income.
- Marginal and average tax rate.
- Comparative tax systems.
- Vertical equity.

Tax Incidence

- Introduction to tax incidence (Gruber, Chapter 19)
- The three rules of tax incidence
- Elasticity and tax incidence
- Barriers to price adjustment (when tax incidence rules do not work)
- General equilibrium and tax incidence (follow the burden)
 - Factor markets: labor and capital (and land)
 - Spillover to other markets
 - Scope of the tax
 - Effect of time on incidence

Book Chapters: Jonathan Gruber. (2016). Public Finance and Public Policy - Chapter 18 (See Bibliography)

Book Chapters: Jonathan Gruber. (2016). Public Finance and Public Policy - Chapter 19 (See Bibliography)

SESSIONS 19 - 20 (LIVE IN-PERSON)

Tax Incidence

- Introduction to tax incidence (Gruber, Chapter 19)
- The three rules of tax incidence
- Elasticity and tax incidence
- Barriers to price adjustment (when tax incidence rules do not work)
- General equilibrium and tax incidence (follow the burden)
 - Factor markets: labor and capital (and land)
 - Spillover to other markets
 - Scope of the tax
 - Effect of time on incidence

Book Chapters: Jonathan Gruber. (2016). Public Finance and Public Policy - Chapter 19 (See Bibliography)

Problem Set Solutions

SESSIONS 21 - 22 (LIVE IN-PERSON)

Tax Incidence

- Introduction to tax incidence (Gruber, Chapter 19)
- The three rules of tax incidence
- Elasticity and tax incidence
- Barriers to price adjustment (when tax incidence rules do not work)
- General equilibrium and tax incidence (follow the burden)
 - Factor markets: labor and capital (and land)
 - Spillover to other markets
 - Scope of the tax
 - Effect of time on incidence

Problem Set - Solutions

SESSIONS 23 - 24 (LIVE IN-PERSON)

Tax Efficiency

- Elasticity and tax efficiency
- Deadweight loss and marginal deadweight loss
- Tax systems with preexisting distortions
- Income tax efficiency: proportional v progressive taxes efficiency effects

Tax Efficiency

- Optimal taxation
 - Ramsey Taxation
 - Inverse Elasticity Rule
 - Application: Tax Reform in an Emerging Market (commodity taxation/subsidy)
- Optimal income taxes / Laffer curve

- Tax-Benefit Linkages: Graphical representation

Book Chapters: Jonathan Gruber. (2016). Public Finance and Public Policy - Chapter 20 (See Bibliography)

SESSIONS 25 - 26 (LIVE IN-PERSON)

Tax Efficiency

- Optimal taxation
- Ramsey Taxation
- Inverse Elasticity Rule
- Application: Tax Reform in an Emerging Market (commodity taxation/subsidy)
- Optimal income taxes / Laffer curve
- Tax-Benefit Linkages: Graphical representation

Problem Set - Solutions

SESSIONS 27 - 28 (LIVE IN-PERSON)

Group Presentations

SESSIONS 29 - 30 (LIVE IN-PERSON)

Final Exam

EVALUATION CRITERIA

6.1. GENERAL OBSERVATIONS

Each student has four attempts over two consecutive academic years to pass this course.

The dates and location of the final exam will be posted in advance and will not be changed.

Students must attend at least 70% of the sessions. Students who do not comply with the 70% attendance rule will receive a 0.0 on their first and second attempts and go directly to the third one (they will need to enroll in this course again the following academic year).

criteria	percentage	Learning Objectives	Comments
Final Exam	30 %		
Midterm Exam	25 %		
Group Presentation	20 %		
Class Participation & Problem Sets	25 %		

RE-SIT / RE-TAKE POLICY

6.2. EVALUATION CRITERIA

Group Presentation

You are expected to complete a project with your group and present it in oral and written form. More details of the project will be provided at the start of the course.

Class Participation

The instructor will incentivize and reward questions and comments from students during lectures and practical lessons.

Two main criteria will be used to judge your class participation

- Frequency: It refers to the attainment of a threshold quantity of contributions that is sufficient for making a reliable assessment of comment relevance. The logic is that if contributions are too few, one cannot reliably assess the quality of your remarks. However, once threshold quantity has been achieved, simply increasing the number of times you talk does not improve your evaluation, so please do not try to steal the show, and do not sacrifice quality for quantity.
- Relevance: This is the most important dimension of participation. A relevant comment reveals depths of insight, rigorous use of case evidence, and most importantly it helps to move your peers' understanding forward.

Problem Sets

Problem Sets should be handed in / emailed on time when required. During practical sessions, some of you can voluntarily help the instructor to resolve exercises on the whiteboard. On other occasions, you would be assigned randomly to help with the solution of exercises too.

Midterm and Final Exam

Both exams will have a similar structure. They will consist of two parts. The first part will include multiple-choice questions. The second part will consist of analytical questions similar to those solved in the problem sets.

The final exam will include all course material.

6.3. RETAKE POLICY

Any student whose weighted final grade is below 5 will be required to sit for the retake exam to pass the course (except those not complying with the attendance rules, who are banned from this possibility).

Grading for retakes will be subject to the following rules:

- The retakes will consist of a comprehensive exam. The grade will depend only on the performance on this exam; continuous evaluation over the semester will not be taken into account.
- The exam will be designed bearing in mind that the passing grade is 5 and the maximum grade that can be attained on the second and fourth attempts is 8 out of 10. The third attempt will require the student to complete: a written assignment, a midterm, a final exam.

This is also applicable to students who do not have required attendance, e.g. sickness.

The dates and location of the retakes will be posted in advance and will not be changed.

BIBLIOGRAPHY

Compulsory

- Jonathan Gruber. (2016). *Public Finance and Public Policy*. 6th. Worth Publishers. ISBN 9781319254742 (Printed)

BEHAVIOR RULES

Please, check the University's Code of Conduct [here](#). The Program Director may provide further indications.

ATTENDANCE POLICY

Please, check the University's Attendance Policy [here](#). The Program Director may provide further indications.

ETHICAL POLICY

Please, check the University's Ethics Code [here](#). The Program Director may provide further indications.

