

**Course Code: ECON-411**

**Title: Public Sector Economics**

**Credit Hours: 03**

**Prerequisite: Intermediate Microeconomics and Intermediate Macroeconomics**

**Course Objectives:**

The main objective of this course is to develop an understanding of the impact of government policies on resource allocation and equitable distribution of income. Public sector economics helps to analyze and identify the effect of public policy on various macroeconomic indicators. This course will help the students to enhance their understanding of various public policies and their effects on the economy.

**Learning Outcomes:**

The market mechanism that leads to efficient resource use

- Principle of pareto efficiency and pareto improvement
- Causes and solutions of market failures and government failures
- Centralized and decentralized decision making to form structure of fiscal federalism
- The criteria that should be applied when one is judging the merit of various budget policies
- Structure of taxes, types of taxes and concept of buoyancy of tax system
- The social, political and historical forces which have shaped the present fiscal and monetary institution' tax and expenditure measures and have determined the formulation of contemporary fiscal and monetary policy

**Course Contents:**

<b>Introduction</b>	Introduction to public sector economics, concept of public budget, Objectives of budget, Types of budget deficit, surplus and balanced budget, Distinction between public and private expenditure, Main sources of public revenue.
<b>Public Expenditures</b>	Causes of public expenditure growth, Major theories of public expenditure, Wagner's Law of public expenditure, Colin Clark (Critical Limit) Hypothesis.
<b>Market Failure</b>	Externalities, Types of externalities- negative externality, socially optimal output, Positive externality, internalizing externalities, Coase theorem, Implications for income distribution.
<b>Public Goods</b>	Public goods excludable, public goods non excludable, Rivalrous and non rivalrous in consumption, Excludability and non-excludability,

	Concept of free rider, Asymmetric information, Adverse selection and moral hazard.
<b>Cost Benefit Analysis</b>	Private and social costs, Types of cost and benefits, Criteria for cost benefit analysis, Project evaluation, Concepts of NPV (Net Present Value), IRR (Internal Rate of Return) and their economic applications.
<b>Introduction to Taxation</b>	Desirable characteristics of a tax system, choosing among different tax system, Types of taxes- direct vs indirect taxes Tax incidence in competitive markets and without perfect competition, Equivalent Taxes, Factors affecting tax incidence.
<b>Taxation and Economic Efficiency</b>	Theories of taxation- The cost theory, the benefit theory, the ability to pay theory- Subjective approach, Objective approach, Progressive, Proportional and Regressive taxes, Degressive tax, specific and advalorem tax, single and multiple taxes, Impact of tax vs. incidence of a tax. Specific tax incidence, Differential tax incidence, balanced budget incidence. Concept of optimal taxation.
<b>Deficit Financing and Public Enterprises</b>	Consequences of Government deficits, improving the budgetary process, Managerial problems of public enterprises in Pakistan, Theories of pricing in public sector enterprises- no profit no loss theory, Managerial cost of production theory, Average cost of production theory, Theory of making profit.
<b>Policies</b>	Social Insurance and Security, Income Distribution and Welfare Reforms State and Local Public Economics: Overview of Fiscal Policy in Pakistan.

#### Teaching Methodology:

- To deliver lectures on topics included in course outline
- To require each student to solve independent assignments on topics included in the course.

#### Evaluation Criteria:

Evaluation Method	Total Percentage
Quizzes/Assignments	25%
Mid-Term Exam	35%
Final-Term Exam	40%

### **Recommended Books:**

- Stiglitz E. Economics of The public sector, W.W. Norton & Co. (Latest Edition)
- Ted Gayer and Harvey S. Rosen. (2010). Public Finance- 10th edition.
- Ronald C. Fisher, (2006). State and local public finance-3rd edition.
- Govt of Pakistan, Economic Survey, yearly publication, Ministry of Finance, Economic Advisory Wing, Islamabad
- Reports of State Bank of Pakistan
- Reports of World Bank