YORK UNIVERSITY

LA & PS
DEPARTMENT OF ECONOMICS

WINTER 2023

AP/ECON 4080.03 M: PUBLIC FINANCE II

R 11:30 – 14:30, LOCATION: HNE 030

Instructor:	VASSILIOS BARDIS
Office Hours:	TBA
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Course Website	on eClass
Website:	on *eclass.yoku.ca*

COURSE DESCRIPTION

The course provides an introduction to the microeconomic analysis of the role of government in contexts where markets fail to function efficiently in the presence of (i) externalities, (ii) public goods and (iii) asymmetric information.

PREREQUISITES

Prerequisites: AP/ECON 2300 3.00, AP/ECON 2350 3.00, AP/ECON 2400, and AP/ECON 2450 3.00, or equivalents. Course credit exclusion: GL/ECON 3570 3.00. PRIOR TO FALL 2009: Course credit exclusions: AK/ECON 3450 3.00, AS/ECON 4070 3.00, GL/ECON 3570 3.00.

SOME IMPORTANT DATES

Classes start / end	Jan. 9 / Apr. 10
Last date to add a course without / with permission of instructor	Jan. 22 / Feb. 6
Last date to drop course without receiving a grade	*March 17*
Course Withdrawal Period (withdraw from a course and receive a "W" on the transcript)	Mar. 18 – Apr. 10
Examination Period	Apr. 12-27
Reading Week	Feb. 18-24
Holiday (University Closed)	April 7

GRADING

The course grade will be based on **in-class participation (5%)**, **two online quizzes (10%)**, **a midterm exam (30%)** and a **final exam (55%)**. All exams in the course are **in-person**.

The course grade will be calculated as follows. Let P denote the participation grade, Q denote the *highest* of the two quiz grades, M denote the midterm exam grade and X denote the final exam grade (each grade out of 100). Then the course grade, Y, will be

$$\mathbf{Y = 0.05\,max(P,X) + 0.1\,max(Q,X) + 0.3max(M,X) + 0.55X}$$

Quiz dates and the midterm exam date will be posted on the course website on the first week of classes. There are no deferred quizzes and there is no deferred midterm exam. If the midterm exam is not taken, then the weight is transferred to the final exam. There will a deferred final exam for students who qualify (see below).

The final exam will be comprehensive and will held during the examination period on the date and time scheduled by the University (to be announced). The opportunity to write a deferred exam will be available to students for whom a religious observance coincides with the date of the final exam or who are unable to complete the exam due to reasons beyond their control. If this applies to you, please email me to let me know. (After the date of the final exam, students who did not complete the final exam must request deferred standing by completing the *required mach form*. This information is available on the department website at https://www.yorku.ca/laps/econ/undergraduate-programs/academic-resources/department-policies/deferred-standing/

Observance Dates: Students for whom the midterm test date coincides with a religious observance must let me know within the first two week of classes. If there is such a conflict with respect to the final exam, students must complete an `Examination Accommodation Agreement' soon after the final exam date is published. (This form can be obtained from the Registrar's office.)

Policy on Reappraisal of Term Work: Reappraisal of students' term work should be completed during the course of the term.

Note on Senate Policy on Academic Honesty: Conduct that violates the ethical or legal standards of the University community or of one's program or specialization may result in serious consequences. Students are encouraged to familiarize themselves with the Senate Policy. **Please note that only simple calculators can be used during tests.**

Note on the use of Electronic Devices: All electronic devices must be turned off during class. Audio/visual recordings of any type are *not* allowed.

TEXTBOOKS

There is *no* required textbook.

1. John Leach, *A Course in Public Economics*, Cambridge University Press, 2003.
2. Jonathan Gruber, *Public Finance and Public Policy*, 3rd edition, Worth, 2011.
3. Jean Hindriks and Gareth D. Myles, *Intermediate Public Economics*, 2nd edition, MIT Press, 2013 (1st edition, 2006)
4. Harvey S. Rosen, Jean-Francois Wen and Tracy Snoddon, *Public Finance in Canada*, 4th edition, McGraw-Hill Ryerson, 2012.
5. David N. Hyman, *Public Finance: A Contemporary Application of Theory to Policy*, 11th edition, South Western Press, 2014. (10th edition, 2011)
6. Joseph P. Stiglitz, *Economics of the Public Sector*, 3rd edition, W. W. Norton, 2000.
7. Hal Varian, *Microeconomic Analysis, 3rd* Edition, W. W. Norton & Company, Inc., 1992.
8. Walter Nicholson and Christopher M. Snyder, *Microeconomic Theory: Basic Principles And Extensions*, Nelson Education, 2011.

LIST OF TOPICS (TENTATIVE)

Review of the Fundamentals of Welfare Economics

- Efficiency and Equilibrium (Leach 1-5)
- The Welfare Cost (Efficiency Loss) of Taxes/Subsidies (Leach 16, 17)

Externalities (Leach 6-9)

- Definitions and Examples
- Efficiency Implications under Perfect Competition
- Taxes/Subsidies in the Presence of Externalities
- Property Rights and Negotiation
- Common Property Resources
- Co-ordination Failures

Public Goods (Leach 10-12, 20)

- Definitions and Examples
- Voluntary Provision and the Free Rider Problem
- Efficiency
- Lindahl Pricing

Asymmetric Information (Leach 19)

- The Revelation Problem with Public Goods
- Regulation of Natural Monopoly
- Adverse Selection in Insurance Markets
- Government Bailouts and Moral Hazard

Public Choice

- Social Choice Rules and Arrow's Impossibility Theorem
- Political Parties and the Principle of Minimum Differentiation