

**PAPER NO- 14**

**PUBLIC ECONOMICS**

**Course Description**

Public economics is the study of government policy from the perspective of economic efficiency and equity. The paper deals with the nature of government intervention and its implication for allocation, distribution and stabilization. Micro theoretic tools are employed to examine how rational individuals respond to incentives and how government policy may be employed to enhance social welfare. Inherently, the course would involve a formal analysis of government taxation and expenditure.

**Course Outline**

**1. Competitive economies**

Review of exchange and production economies, and classical efficiency theorems.

**2. Public goods**

Various modes of provision and decision-making; mechanism design, e.g., Clarke-Groves schemes. Club goods and local public goods; various models of provisioning; the Tiebout model.

**3. Externalities**

Various examples; various models for dealing with the inefficiency; taxation, licensing, internalization, the Coasian approach.

**4. Imperfect competition**

Inefficiency and welfare loss; regulation of monopolies, monopsonies and oligopolies; detection of collusion and merger policy; taxation as a remedy.

**5. Asymmetric information**

Moral hazard, screening, signalling; second-best contracting.

**6. Taxation**

Deadweight losses, optimal taxation, tax rules and equity considerations of commodity taxes; public sector pricing; income taxes and labour supply; various taxation schemes; models of tax evasion, auditing and punishment.

**7. Fiscal federalism**

Arguments for multi-level government; optimal structure; risk sharing.

**Readings**

1. J. Hindriks, G. Myles: *Intermediate Public Economics*, MIT Press , 2006.
2. H. Rosen, T. Gayer: *Public Finance*, 9<sup>th</sup> ed., McGraw-Hill/Irwin , 2009.
3. J. Stiglitz: *Economics of the Public Sector*, 3<sup>rd</sup>. ed., W. W. Norton and Co., 2000.