AFRICAN ECONOMIC RESEARCH CONSORTIUM (AERC)

COLLABORATIVE MASTERS PROGRAMME (CMAP) IN ECONOMICS FOR ANGLOPHONE AFRICA (EXCEPT NIGERIA)

JOINT FACILITY FOR ELECTIVES

PUBLIC SECTOR ECONOMICS

COURSE OUTLINE

(Revised: July 2020)

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I. COURSE OBJECTIVES

The course will expose students to the state-of-the-art in public sector economics theory, while drawing on empirical evidence from developed and developing countries. The aim is to develop analytical tools and methods that will enable students to appreciate issues pertaining to public spending, taxation and financing of government. As much as possible, evidence will be drawn from African and other developing countries. By the end of the course the students should be able to:

- Discuss critically key issues in public economics, informed by recent research; and
- Demonstrate familiarity with a range of public policy issues and relevant analytical and empirical tools.

II. COURSE OVERVIEW

This is a master’s level course in Public Sector Economics. The course covers: the role and size of the public sector, including the rationale for public sector interventions such as market and government failure and distributional concerns; public expenditure policy, including assessment of government social protection programs, public projects, public investment management, public-private partnerships, privatization and the role of the private sector in the production and provision of public goods and services. Also addressed are key factors determining a nation’s fiscal architecture; public resource mobilization via user charges and taxation, including the economics of taxation, taxation of income, wealth, and consumption, tax incentives, tax compliance and enforcement, and tax reform. It also covers fiscal federalism and issues related to public debt, deficit financing and fiscal federalism.

III. COURSE ASSESSMENT

The course will be assessed by continuous assessment and a final examination. The weighting will be as follows:

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<thead>
<tr>
<th>Component</th>
<th>Weightage</th>
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<tbody>
<tr>
<td>Continuous Assessment</td>
<td>40%</td>
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<tr>
<td>Final Examination</td>
<td>60%</td>
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Continuous assessment shall be made up of at least one in-class test, one take-home assignment/term paper and an individual class presentation on a selected topic in public sector Economics.

IV. PRE-REQUISITES

The students are expected to have successfully completed the core courses (Microeconomics, Macroeconomics, and Quantitative Methods).

V. RECOMMENDED TEXTBOOKS


**Supplementary readings**


**Online Resources and Links**

2. www.jstor.org
3. www.ebsco.org (EBSCO host articles)
6. www.globethics.net/library
7. www.digitallibrary.edu.pk/oaebooks.html
8. https://www.wdl.org/
9. www.elibrary.bigchalk.com/
10. www.webcrawler.com
VI. DETAILED COURSE OUTLINE

FIRST SEMESTER

PUBLIC SECTOR ECONOMICS I (60 HOURS)

1. INTRODUCTION (2 HOURS)
   Definition; nature and scope of Public Sector Economics; methodology of Public Sector Economics; and structure of the Public Sector.

   Basic Readings:

   Gruber Chapters 1, 2, and 3 (including appendix)
   Rosen & Gayer chapters 1 & 3
   Hindriks & Myles chapter 1

2. FOUNDATIONS OF PUBLIC ECONOMICS (8 HOURS)
   Pareto optimality and efficiency of competitive markets; efficiency conditions in a two-period intertemporal model; consumer and producer surplus; and theory of second best.

   Basic Readings:

   Leach Chapters 1, 3, 4 & 5.
   Atkinson and Stiglitz, Chapter 1
   Hindriks & Myles chapter 2

   Other Readings:

3. **MARKET FAILURE**  
**2 HOURS**

Sources of market failure: public goods; externalities; market imperfections; missing markets; increasing returns to scale; risk and uncertainty; income distribution; information asymmetry; tax distortions; and market inefficiency.

**Basic Readings:**

Leach chapter 1 (1.2.1 - 1.2.4).

Atkinson and Stiglitz, Chapter 1

Cornes and Sandler, Chapter 1

Howard, La Foucadc & Scott, Chapter 1

**Other Readings:**


4. **GOVERNMENT FAILURE**  
**6 HOURS**

Sources of government failure: Disjunction between public costs and revenues; high levels of taxation; imperfect control of government agencies and procurement processes; on-governmental institutions (channels for aid due to government failure; rent-seeking: corruption and economic crime, embezzlement, regulatory capture, preference-revelation
problems, and crime, and failures resulting from a principal-agent problem etc). Measures to correct government failure: public sector reform (reducing government size, rationalization of government functions, privatization); and non-governmental institutions.

**Basic Readings:**

Cullis and Jones, Chapter 5 & 14

Howard, M. M., A. La Foucade & Scott, Chapter 3

Hindriks and Myles, Chapter 5

Public Procurement Acts for various Countries (For example, Kenya Public Procurement and Public Asset Disposal Act, 2006, Uganda Public Procurement and Disposal of Public Assets Act, 2005)

**Selected Readings:**


5. **EXTERNALITIES** (8 HOURS)
Definitions; types; sources; consequences; and corrective mechanisms.

**Basic Readings:**
- Gruber chapters 5 & 6
- Leach chapters 6 - 8
- Cornes and Sandler, chapters 3 & 4
- Hindriks & Myles chapter 7

**Other Readings:**


6. PUBLIC GOODS (8 HOURS)
Definitions; pure public goods; merits goods; club goods; optimal provision of public goods; and alternative mechanism for provision of public goods (e.g. Lindhal mechanism, Clarke & Grooves, etc).

**Basic Reading**
Gruber chapter 7
Leach chapters 10 - 12
Cornes & Sandler chapters 1, 2, 6, 7.
Hindriks & Myles chapters 5 & 6.
Howard, M. M., A. La Foucade & Scott, Chapter 2

**Other Readings:**


7. **PUBLIC CHOICE** *(10 HOURS)*

Unanimous Consent on Public Goods Levels; Mechanisms for Aggregating Individual Preferences; Representative Democracy; the Foundations of Government Failure.

**Basic Readings:**
Gruber, chapter 9
Rosen & Gayer, Chapter 6
Hindriks & Myles chapter 11
Howard, M. M., A. La Foucade & Scott, Chapter 4

**Other Readings:**


8. **PUBLIC EXPENDITURE** *(8 HOURS)*
Social Welfare function; Measuring Inequality; Social protection Programmes: Social Insurance and Security; Size and composition of public expenditure; Theories of public expenditure growth; Public Expenditure Policy in Africa.

**Basic Readings:**
Gruber chapters 10 & 12  
Atkinson and Stiglitz, Chapters 10, 16 & 17  
Howard, M. M., A. La Foucade & Scott, Chapter 6  
Hindriks & Myles chapter 4

**Other Readings**


9. **PUBLIC INVESTMENT MANAGEMENT** *(8 HOURS)*
Evaluation of Public Projects/Programmes (benefit analysis; social cost-benefit analysis; cost effectiveness; shadow prices and market prices; discount rate for social cost-benefit analysis); Institutions for Public Investment Management - (planning, allocation and implementation). Planning: fiscal rules, national sectoral planning, central/local planning, management of PPPs. Allocation and Budgeting: - Definitions; multiple purposes of budgeting; types, and techniques of budgeting; budget policy, formulation and execution; planning and budgeting; public revenue and expenditure forecasting; Implementation (protection of investment, transparency of execution and monitoring of assets; Incentives in the Public Sector.

**Basic Readings:**

Gruber chapter 4, 8

Howard, M. M., A. La Foucade & Scott, Chapter 9, 10

Hindriks and Myles, Chapter 25

**Other Readings:**


SECOND SEMESTER

PUBLIC SECTOR ECONOMICS II (60 HOURS)

1. INTRODUCTION (4 HOURS)
Definitions, History and rationale for taxation. Canons of a good tax system; Objectives of tax policies, types of taxes; distinctions among a tax and fees, fines, user charges, royalties; and penalties. Vertical and horizontal equity

Basic Readings:
Gruber, chapter 18
Howard, M. M., A. La Foucade & Scott, Chapter 13

Other Readings

2. THEORY OF TAXATION (10 HOURS)
Incentive effects of taxation (on savings, investment, labour supply and risk taking); and tax incidence analysis.

Basic Reading:
Gruber chapters 18, 19, 21, 22, 23& 24
Atkinson and Stiglitz, Chapters 2 - 4, 6, 7, & 12-14
Howard, M. M., A. La Foucade & Scott, Chapter 14

Other Readings
3. **THEORY OF OPTIMAL TAXATION** (6 HOURS)

Optimal commodity taxation and optimal income taxation

**Basic Readings:**

- Gruber, Chapter 20 (Including Appendix)
- Howard, M. M., A. La Foucade & Scott, Chapter 21
- Atkinson and Stiglitz, Chapters 12-14
- Hindriks & Myles chapters 15 & 16


4. **TAX EVASION AND AVOIDANCE** (6 HOURS)
Tax avoidance, models of tax evasion, underground economy, tax amnesty, evidence of tax evasion from Africa

**Basic Readings**

Atkinson and Stiglitz

Hindriks & Myles, Chapter 17

Howard, M. M., A. La Foucade & Scott, Chapter, 20

**Other Readings**


5. **TAX POLICY, STRUCTURE AND ADMINISTRATION (8 HOURS)**

Objectives of tax policy; tax policy in developing countries; taxation and development; tax structure; tax administration; tax base, elasticity & buoyancy, and tax reforms in developing countries. Constraints to revenue mobilization in Africa. The Role of ICT and Mobile Money Transactions in strengthening tax collection and administration Africa experience.

**Basic Readings:**
Gruber chapter 25

Howard, M. M., A. La Foucade & Scott, Chapter 13, 17 and part of 20

Rosen and Baye Chapter 21

**Other Readings**


The articles in the 2018 JID special issue on "Fiscal Policy, State Building and Economic Development", vol 30, Issue 2, pp: 159-364


6. **FISCAL FEDERALISM**  
   (12 HOURS)

Theory of Fiscal Federalism (Tiebout Model); Principles of intergovernmental relations; assignment of functions: expenditure and tax assignments; tax competition; revenue sharing mechanisms/ intergovernmental grants and transfers; fiscal federalism and the African experience. Local Government Revenue Collection systems: the African Experience, Fiscal Implication of Decentralization by Devolution

**Basic Readings:**

Gruber chapter 10

Rosen and Gayer, Chapter 22

Hindriks & Myles chapter 19, 20

**Other Readings**


Morrissey, Oliver; Islei, Olaf; M’Amanja, Daniel (2006), “Aid loans versus aid grants: Are the effects different?” CREDIT Research Paper, No. 06/07. The University of Nottingham, Centre for Research in Economic Development and International Trade.


Oates W. E. (1972), Fiscal Federalism. New York: Harcourt Bruce,


7. INTERNATIONAL ISSUES IN TAXATION (8 HOURS)
International issues in taxation – concepts and principles; Tax harmonisation; Tax competition, fiscal externalities and coordination failure; Implications of trade costs for taxes and investment flows, Transfer Pricing Manipulation, Tax havens, illicit financial flows. Tax treaties, and regulations on Transfer Pricing.

Readings:

Howard, M. M., A. La Foucade & Scott, Chapter 19

Hindriks and Myles, Chapter 21

Other Readings


A. Auerbach. “A Modern Corporate Tax.” Center for American Progress, 2010.


8. PUBLIC DEBT (6 HOURS)
Fiscal deficits; domestic and external debt: causes, management, strategies, financing and sustainability. Overview of external debt in Africa and debt relief initiatives.
Basic Readings:

Rosen and Gayer, Chapter 20

Howard, M. M., A. La Fouca & Scott, Chapter 10

Hindriks and Myles, Chapter 4

Other Readings


