

THE UNIVERSITY OF HONG KONG
SCHOOL OF ECONOMICS AND FINANCE

ECON 0104 Public Finance

2nd Semester, 2009-10

Office: K.K. Leung Building KKL905

Lecture hours: Tues. 1 - 3 p.m. & Thurs. 1 - 2 p.m. in TS403

Office hours: Right after class on Tues. 3 - 4 p.m. and Thurs. 2 - 3 p.m. and by appointment

Home page Universal Resource Locator:

<http://www.sef.hku.hk/~timhau/2009/econ0104/index.html>

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READING LIST

LEARNING OBJECTIVES:

The course *Public Finance* aims to achieve the following learning objectives:

- understand the role of the public sector in the economy using microeconomics;
- understand public expenditure analysis and methods of financing government expenditures;
- study the underlying theory of welfare economics as well as the economic effects of public policy such as public sector pricing, expenditure and tax policies.

In modern parlance, the course should be called *Public Sector Economics* rather than by its traditional title of *Public Finance*.

LEARNING OUTCOMES:

The course *Public Finance* aims to achieve the following learning outcomes:

CILO1: Explain public finance principles and theories

CILO2: Perform economic policy analysis by applying microeconomic principles and theories

CILO3: Demonstrate effective communication skills

ASSESSMENT & REQUIREMENTS: A final exam (53%), several problem set exercises (10%), Budget essay (10%) and term test (27%).

Students are presumed to have taken Intermediate-level Microeconomic Theory or Microeconomic Analysis. Those who have not taken intermediate microeconomics will find it difficult to follow the analytical components of the course (such as leisure-goods choice, General Equilibrium and Welfare Economics under Tools of Normative Analysis, and Ramsey rule). It is to be preferred that students have taken Introduction to Macroeconomics *in addition* to Introduction to Microeconomics. Basic calculus will be used where necessary in a few places in the course and will not be emphasized in examinations. As part of the writing component, you are expected to submit a short typewritten essay (within 3-5 pages) both in hard and soft copies in response to the annual budget speech delivered by the Financial Secretary. This year's Budget Speech is scheduled to be delivered by Mr. John Tsang Chun-wah, JP, Financial Secretary at 11 a.m. on Wednesday, February 24, 2010 during this term's Week 6. The Budget essay is due in class at 1 p.m. on Tuesday, April 1st, 2010, Week 10. You are to critically analyze certain aspects of the HKSAR Government's 2010-11 Budget such as selected tax or expenditure item(s).

TEXTBOOKS:

Basic:

*Rosen, Harvey S., and Ted Gayer (2010), *Public Finance*, 9th edition, New York, N.Y.: McGraw-Hill/Irwin. OR *Public Finance*, 2008, 8th edition, OR *Public Finance*, 2005, 7th edition. (Available at the HKU Bookstore at the International Edition price of US\$30.95 less 10% student discount; thus at \$217.30 it is very good value for money. Compare with the hardback available from McGraw-Hill at US\$172.19 and Amazon.com at US\$137.75)

The companion Student Website is at:

http://highered.mcgraw-hill.com/sites/0073511358/information_center_view0/

It contains the following links: [Table of Contents](#), [Walkthrough](#), [About the Authors](#), [Feature Summary](#), [Supplements](#), [Sample Chapter](#), [Chapter Summaries](#), [Web Links](#), [Glossary](#)

Bruce, Neil (2001), *Public Finance and the American Economy*, 2nd edition, Reading, Massachusetts: Addison-Wesley Longman, Inc. Further information and a sample Chapter 4 on "Externalities and Public Policy" in the 2nd edition, please click onto: <http://www.awl.com/info/bruce/>

Other Recommended Books:

Stiglitz, Joseph E. (2000), *Economics of the Public Sector*, 3rd edition, New York: W.W. Norton & Company Inc.

[Boadway](#), Robin W., and David E. Wildasin (1984), *Public Sector Economics*, 2nd edition, Toronto: Little, Brown and Company. (The Chinese translation is by Beijing's Renmin University Press, 2000, 425 pages.)

TOPICS TO BE COVERED (time permitting). Asterisked (*) items are basic - required - if you like, whereas those without asterisks () are highly recommended. Both required and recommended readings are on two-hour reserve in the library. Required readings are downloadable at our course home page. Chapter number refers to both recent versions by Harvey S. Rosen and Ted Gayer (2010) and (2008), *Public Finance*, 9th and 8th editions, New York, N.Y.: McGraw-Hill/Irwin.

Part One: Introduction

1. Introduction
2. Tools of Positive Analysis
3. Tools of Normative Analysis

Part Two: Public Expenditure: Public Goods and Externalities

4. Public Goods
5. Externalities
Hau (1998)
6. Political Economy
7. Education (new in 8th edition)
8. Cost-Benefit Analysis
Mohring (1993)

Part Three: Public Expenditure: Social Insurance and Income Maintenance

9. The Health Care Market
10. Government and the Market for Health Care
11. Social Security
12. Income Redistribution - Conceptual Issues
13. Expenditure Programs for the Poor

Part Four: A Framework for Tax Analysis

14. Taxation and Income Distribution
15. Taxation and Efficiency
16. Efficient and Equitable Taxation

Part Five: The United States Revenue System (As we cover the H.K. Budget, in Part Five we cover selected diagrams deemed relevant to public microeconomic analysis or applicable to Hong Kong.)

17. The Personal Income Tax
18. Personal Taxation and Behavior
19. The Corporation Tax
20. Deficit Finance
21. Fundamental Tax Reform: Taxes on Consumption and Wealth

Part Six: Multigovernment Public Finance (time permitting)

22. Public Finance in a Federal System

Articles (time permitting):

*Hau, Timothy D. (1998), "[Congestion Pricing and Road Investment](#)", in Kenneth J. Button and Erik T. Verhoef (eds.), *Road Pricing, Traffic Congestion and the Environment*, Cheltenham, England: Edward Elgar Publishing Ltd., pp. 39-78.

*Mohring, Herbert (1993), "[Maximizing, Measuring, and Not Double Counting Transportation-Improvement Benefits: A Primer on Closed- and Open-Economy Cost-Benefit Analysis.](#)" *Transportation Research B*, Vol. 27B, No. 6, December, pp. 413-424.

Hardin, Garrett (1968), "The Tragedy of the Commons," *Science*, Vol. 162, December 13, 1968, 1243-1248. Reprinted in Samuel Baker and Catherine Elliott (1997), *Readings in Public Finance*, 2nd edition, Cincinnati, Ohio: South-Western College Publishing, Selection 17, pp. 107-120.

Hall, Robert E., and Alvin Rabushka (1995), *The Flat Tax*, 2nd edition, Stanford, California: Hoover Institution, Stanford University Press. See the earlier edition of Robert E. Hall and Alvin Rabushka (1983), *Low Tax, Simple Tax, Flat Tax*, New York, N.Y.: McGraw-Hill, Chapters 1, 3, especially the section modeled after Hong Kong's flat tax system, pp. 28-31.

ALIGNMENT OF PROGRAM INTENDED LEARNING OUTCOMES (Program ILOs) &
COURSE INTENDED LEARNING OUTCOMES (Course ILOs):

Program ILOs	Course ILOs
Acquisition and internalization of knowledge of economics & finance	CILO01, CILO02, CILO03
Application and integration of knowledge	CILO01, CILO02, CILO03
Mastering communication skills	CILO03
Developing global outlook	CILO01, CILO02

ASSESSMENT & REQUIREMENTS

Final Examination	53%
Term Test	27%
Several Problem Sets	10%
Budget Essay	10%
Total	100%

TEACHING AND LEARNING ACTIVITIES (TLA)

TLA1	Lecture	Instructor will give lectures on major concepts and issues.
TLA2	Tutorial discussion	Students are expected to engage in discussion during lecture and tutorial meetings. Most in-depth learning takes place when students actively engage themselves in discussions thought presenting and sharing their ideas.
TLA3	Consultation	Both instructor and teaching assistant hold weekly consultation hours to answer students' questions.

ALIGNMENT AMONG COURSE INTENDED LEARNING OUTCOME, TEACHING &
LEARNING ACTIVITIES AND ASSESSMENT TASKS

Learning Outcomes	Teaching and learning activity (TLA)	Assessment Tasks
CILO01	TLA1, TLA2, TLA3	Tutorials, Problem Sets, Test, Exam
CILO02	TLA1, TLA2, TLA3	Tutorials, Problem Sets, Test, Exam
CILO03	TLA1, TLA2, TLA3	Tutorials, Problem Sets, Test, Exam

STANDARDS OF ASSESSMENT

(Standard grade distribution is based on the latest Faculty Undergraduate Committee's guidelines.)

Grade	Grade Definition	Description
A+, A, A-	High distinction 0 – 25%	Strong evidence of superb ability to fulfill the intended learning outcomes of the course at all levels of learning: describe, apply, evaluate, and synthesize.
B+, B, B-	Distinction 20–50%	Strong evidence of the ability to fulfill the intended learning outcomes of the course.
C+, C, C-	Credit pass 10–50%	Evidence of adequate ability to fulfill the intended learning outcomes of the course.
D	Pass <i>Balance</i>	Evidence of basic familiarity with the subject.
F	Fail <i>Balance</i>	Little evidence of basic familiarity with the subject.

ACADEMIC CONDUCT

The University Regulations on academic dishonesty will be strictly enforced! Please check the University Statement on plagiarism on the web: <http://www.hku.hk/plagiarism/>

Academic dishonesty is behavior in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following types of cases:

- a. Plagiarism - The representation of someone else's ideas as if they are one's own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one's own work. Paraphrasing of someone else's ideas is still using someone else's ideas, and must be acknowledged.
- b. Unauthorized Collaboration on Out-of-Class Projects - The representation of work as solely one's own when in fact it is the result of a joint effort. Where a candidate for a degree or other award uses the work of another person or persons without due acknowledgement:
 1. The relevant Board of Examiners may impose a penalty in relation to the seriousness of the offence;
 2. The relevant Board of Examiners may report the candidate to the Senate, where there is prima facie evidence of an intention to deceive and where sanctions beyond those in (1) might be invoked.