



**LAKEHEAD UNIVERSITY
DEPARTMENT OF ECONOMICS**

**ECONOMICS 3313
PRINCIPLES OF PUBLIC ECONOMICS**

Winter 2020
Mondays & Wednesdays, 1:00-2:30 PM

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1. INTRODUCTION:

The objectives of this course are to provide the student with an understanding of the justification for public sector involvement in the economy and the effect of such involvement. The course will combine theoretical and policy perspectives and the empirical focus will be the Canadian public sector. The course will survey both expenditure and tax theory as well as provide a brief introduction to fiscal federalism.

2. LEARNING OUTCOMES:

The outcomes of this course will include:

- Familiarization with the basic economic functions of government.
- Knowledge of the application of the tools of economic analysis to the study of government.
- Understanding of the causes and needs for government intervention due to market failure and other factors.
- Acquisition of a basic overview of the spending and tax structure of the Canadian public sector, its expenditure composition and trends and knowledge regarding the growth of the public sector.
- Overview knowledge of the Canadian federal system and principles of fiscal federalism, grants, transfers and equalization.
- Basic principles of the theory of public goods, externalities, taxation.
- Specific knowledge on personal income, corporate and commodity taxation.

3. ADMINISTRATIVE MATTERS

A. Texts & Materials (*Denotes Required)

*Rosen, H.S., T. Gayer, J.F. Wen, T. Snodden, (2016) *Public Finance in Canada*, 5th Canadian edition, McGraw-Hill Ryerson.

Student Web Resources: <http://www.mcgrawhill.ca/college/rosen>

Course Slides Available on Course Web Site on Desire To Learn (My Course Link):
(2020) ECON-3313-WA - Public Finance

B. Evaluation

2 tests 2X20%=40% (Test 1 Feb 10th; Test 2 March 18th)
1 Assignment 10% (Due Date Feb 5th)
1 final exam 50%

C. Some Canadian Public Finance Web Sites of Interest

Parliamentary Budget Officer: <http://www2.parl.gc.ca/sites/pbo-dpb/index.aspx?Language=E>

Ontario Ministry of Finance: <http://www.fin.gov.on.ca/english/index.html>

Ontario Financing Authority: <http://www.ofina.on.ca/main.html>

Federal Department of Finance: <http://www.fin.gc.ca/fin-eng.html>

Statistics Canada: <http://www.statcan.gc.ca/start-debut-eng.html>

D. Office Hours

Monday, Wednesday: 12:00 – 1pm.

4. E. Course Outline

1. Introduction to Public Finance

- (i) What is public finance?
 - (ii) What is the public sector?
- Rosen et al., Chapters 1

Atkinson, A.B. (2012) “The Mirrlees Review and the State of Public Economics,”
Journal of Economic Literature, 50(3), 770-780.

2. Economic Functions of Government

(i) Rationale for government activity

Rosen et al., Chapter 2

Tanzi, V. (2005) "The Economic Role of the State in the 21st Century," *Cato Journal*, 25, 3, Fall.

3. Market Failure and the Rationale for Government Intervention

Rosen et al., Chapters 2

Bator, F.M. (1958) "The Anatomy of Market Failure", *Quarterly Journal of Economics*, August, 351-379.

4. An Overview of The Structure of Government Spending in Canada

Rosen et al., Chapters 1

Federal Fiscal Reference Tables < <https://www.fin.gc.ca/pub/frt-trf/index-eng.asp>>

Treff, K. and D. Ort (2013) *Finances of the Nation 2012*. Canadian Tax Foundation.

Kneebone, R. and M. Wilkins (2016) "Canadian Provincial Government Budget Data, 1980/81 to 2013/14" *Canadian Public Policy*, March.

Di Matteo, L. (2017) *A Federal Fiscal History: Canada, 1867-2017*. The Fraser Institute.

5. Introduction to Taxation

(i) Criteria for Evaluating the Tax System:

(a) Efficiency

(b) Equity

(ii) Overview of the Canadian Tax system

Rosen et al., Chapter 14-16

Federal Fiscal Reference Tables < <https://www.fin.gc.ca/pub/frt-trf/index-eng.asp>>

6. Personal Income Taxation

(i) Recent Developments in Canada's Tax System

(ii) Incentive Effects: Theory and Evidence

(iii) The Income Tax and Saving Behaviour

(iv) Income Tax and Risk-Taking

Rosen et al., Chapters 17-18.

Speer, S., M. Palacios, M. Lugo & F. Vaillancourt (2014) *The Cost to Canadians of complying with Personal Income Taxes*, The Fraser Institute.

Watson, W. and J. Clemens eds. (2017) *Zero to 50 in 100 Years. The History and Development of Canada's Personal Income Tax*. Fraser Institute.

7. Corporate Taxation

- (i) Is there shifting of the corporate tax?
Rosen et al., Chapter 21

McKenzie, K.J. (2015) "The Corporate Income Tax in Canada-Past, Present and Future," *Canadian Tax Journal*, 63:4, 1011-26.
George Zodrow (2008) "Policy Forum: Corporate Income Taxation in Canada" *The Canadian Tax Journal*, 56, 2, 392-468.

8. Sales and Commodity Taxation

- (i) Rationale for a Consumption Tax
- (ii) The GST/The HST
Rosen et al., Chapter 19.

9. Urban Public Finance & the Property Tax

- (i) The Local Public Sector
- (ii) Wealth and Property Taxation
Rosen et al., Chapter 20

10. The Growth of the Public Sector Over Time

- (i) Wagner's Law
- (ii) Peacock-Wiseman Displacement Hypothesis
- (iii) Public Choice & Voting Behaviour
Rosen et al., Chapter 7.

L. Di Matteo (2013) *Measuring Government in the 21st Century: An International Overview of the Size and Efficiency of Public Spending*. The Fraser Institute.

11. Government Production and Public Goods

- (i) Characteristics of public goods
- (ii) Samuelson rule for public good provision
Rosen et al., Chapter 4

Samuelson, P.A. (1955) "Diagrammatic Exposition of a Theory of Public Expenditures", *Review of Economics and Statistics*, 37, 350-56.

12. Externalities

- (i) Types of Externalities
- (ii) Solving Externalities

Rosen et al., Chapter 5

Coase, R.H. (1960) "The Problem of Social Cost", *Journal of Law and Economics*, Vol. III, Oct., 1-44.

13. Fiscal Federalism

(i) Economic reasons for centralization and decentralization

(ii) Intergovernmental grants: theory and evidence

(iii) Equalization in Canada

Rosen et al., Chapter 8

Buchanan, J. (1950) "Federalism and Fiscal Equity", *American Economic Review*, 583-599.