

The first 7 weeks of the MIE781 course is on **PUBLIC FINANCE**

### Course Outline

1. Introduction (1 week)
  - a. Why do we need a government?
  - b. Markets and market failures
  - c. Public goods
  - d. Externalities
  - e. Imperfect competition
  - f. Asymmetric information
  - g. Organic versus mechanistic view of government
  - h. Critique of the South African government
  
2. Government spending programs and philosophy (3 weeks)
  - a. The South African budget and expenditure priorities over time.
  - b. Homework: Write an **individual** paper of between 2000 and 3000 words on the role of government to redistribute income and to provide good education to the people. The paper should be introduced by the theory of public goods and externalities (maximum 500 words).
  
3. Government taxation principles (3 weeks)
  - a. Tax incidence
    - i. Statutory versus economic incidence
    - ii. Balanced budget incidence
    - iii. Differential tax incidence
  - b. Functional versus size distribution of income
  - c. Income tax: Sources versus uses of income
  - d. Land tax
  - e. General equilibrium modelling of tax incidence
  - f. Homework: Assume that the Fees Must Fall campaign succeeds and that the government has to fund all education. What type of taxes would be used to fund education and what would be the economic tax incidence implications thereof, in your view? (Think "size distribution of income"). Give an overview of the Functional Distribution as well as the Size Distribution of Tax Revenue in South Africa currently, and write a short essay to address the question above.
  - g. Homework: Two of the biggest problems that South Africa faces are a poor education system and a very skewed distribution of income, accompanied by severe poverty levels. It is the duty of government to provide basic education to its people, as well as address the market failure that income does not automatically become distributed fairly. Income taxes are very high in South Africa and could possibly not be increased. Spending on education is also of the highest per capita in the world. Write a policy **paper** to suggest how the South African government could move towards solving the above-mentioned problems on the spending side as well as the revenue side of government finance.

### **Course Material**

- Readings from articles that will be provided as we go through the 7 weeks.
- Rosen, H.S., 2010, *Public Finance*, McGrawHill.
- Leach, J., 2004, *A Course in Public Economics*, Cambridge University Press.

**Course exam** will be a take-home exam after 1 September 2017