

**THE UNIVERSITY OF HONG KONG  
FACULTY OF BUSINESS AND ECONOMICS  
School of Economics and Finance**

**ECON0104 / ECON2223 – Public Finance  
2<sup>nd</sup> Semester, 2016-17**

<b>GENERAL INFORMATION</b>	
Instructor:	Dr. Timothy Hau
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Office:	Room 905 K K Leung Building
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Lecture:	Tuesday 3:30 - 4:20 p.m. in KKL102, Friday 3:30 - 5:20 p.m. in KKL102
Consultation times:	Tuesday 4:30 - 6:00 p.m., Friday 5:30 - 6:00 p.m. and by appointment
Personal website:	<a href="http://www.sef.hku.hk/people/faculty/timothy_hau.html">http://www.sef.hku.hk/people/faculty/timothy_hau.html</a>
Pre-requisites:	ECON1001 / ECON1210 Introduction to Economics I (Introductory Microeconomics) or equivalent
<p>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 using indifference curve analysis of leisure-goods choice, Laffer curve, General Equilibrium and Welfare Economics under the Tools of Normative Analysis chapter, Multiple Taxes and the Theory of the Second Best under the Taxation and Efficiency chapter, and Ramsey inverse elasticity rule under the topic of Optimal Commodity Taxation). Students should have been exposed to Introductory Macroeconomics in addition to Introductory Microeconomics. Basic calculus is used in several places in the course but will not be emphasized in examinations. While calculus is <i>not</i> required for exam purposes, some mathematics background and the willingness to learn are needed to fully benefit from the course.</p>	
Course Website:	<a href="http://www.sef.hku.hk/~timhau/2016/econ0104_2223">http://www.sef.hku.hk/~timhau/2016/econ0104_2223</a>
<b>COURSE DESCRIPTION</b>	
<p>Study of the role of government in the economy using microeconomics. The course covers public expenditure analysis and methods of financing government expenditures. It explores the underlying theory of welfare economics as well as the economic effects of public policy such as public sector pricing, expenditure and tax policies.</p> <p>As part of the writing component, you are required to submit a typewritten mini-paper (of no more than 2,000 words in Word) based on your individual work both in hard and soft copies in response to the annual budget speech delivered by the Financial Secretary. This year's Budget Speech is expected to be delivered by Mr. Paul CHAN Mo-po, JP, Financial Secretary at 11 a.m. on Wednesday, February 22<sup>nd</sup>, 2017 during this term's Week 5. You are to critically analyze certain aspects of the 2017-18 Budget of the HKSAR Government such as selected tax or expenditure item(s) by applying public microeconomic principles, developing economic intuition and reasoning, and learning effective writing. The Budget mini-paper is due in class on Friday, April 7<sup>th</sup>, 2017, Week 10. A 1-hour term test is scheduled for Friday, March 24<sup>th</sup>, 2017, during the first hour.</p>	
<b>COURSE OBJECTIVES</b>	
<ol style="list-style-type: none"> <li>1. To learn the underpinnings of public sector economics using microeconomic theories, analytical and graphical tools;</li> <li>2. To study public expenditure analysis and methods of financing government expenditures, the underlying theory of welfare economics as well as the economic effects of public policy such as public sector pricing, expenditure and tax policies.</li> <li>3. To apply microeconomic principles to public economic issues and problems, develop one's economic reasoning, hone one's economic intuition and build one's effective writing.</li> </ol>	
<b>COURSE LEARNING OUTCOMES</b>	
Course Learning Outcomes	Aligned with Faculty's 5 Overall Goals*
CLO1 Should have learnt the underpinnings of public sector economics using microeconomic theories, analytical and graphical tools;	G1, G2
CLO2 Should have learnt public expenditure analysis and methods of financing government expenditures, the underlying theory of welfare economics as well as the economic effects of public policy such as public sector pricing, expenditure and tax policies.	G1, G2
CLO3 Should have learnt how to apply microeconomic principles to public economic issues and problems, develop one's economic reasoning, hone one's economic intuition and build one's effective writing.	G1, G2, G3, G4 and G5
<p>*The Faculty of Business and Economics' 5 Overall Goals are: 1) Acquisition and internalization of knowledge of the program discipline; 2) Application and integration of knowledge; 3) Inculcating professionalism and leadership; 4) Developing global outlook; and 5) Mastering communication skills.</p>	

<b>COURSE TEACHING AND LEARNING ACTIVITIES</b>		
<b>Course Teaching and Learning Activities</b>	<b>Expected contact hours</b>	<b>Study Load (% of study)</b>
T&L1. Lectures	39 hours	32.5%
T&L2. Tutorials	12 hours	10.0%
T&L3. Self study	69 hours	57.5%
Total	120 hours	100%

<b>Assessment Methods</b>	<b>Brief Description</b>	<b>Weight</b>	<b>Aligned Course Learning Outcomes</b>
A1. Problem Set Exercises	Weekly problem set exercises help one learn how to apply microeconomic principles to public economic issues and problems, develop one's economic reasoning and hone one's economic intuition.	15%	CLO1, CLO2, CLO3
A2. Budget mini-paper	A mini-paper helps one learn how to apply microeconomic principles to HKSAR Government Budget issues, develop one's economic reasoning, hone one's economic intuition as well as build one's effective writing. The paper should be typewritten, double-spaced with standard margins and format. The Word document should show a word count on the first page that does not exceed 2,000 words (including everything except graphs in jpg or pdf format merged into the Word document). The hard copy of the Budget mini-paper is due at the beginning of class on Friday, April 7 <sup>th</sup> , 2017, Week 10. (For each day of late submission ten percent shall be deducted. Plagiarism is not tolerated.) The soft copy must be uploaded onto our Moodle course home page and checked via Turnitin (by checking "Exclude Quotes" and "Exclude Bibliography" exclusion options) on the due date.	10%	CLO1, CLO2, CLO3
A3. Term Test	A 1-hour closed-book Term Test shall be held on Friday, March 24 <sup>th</sup> , 2017, Week 8, during the first hour. There shall be no make-up test. Feedback shall be given in class.	27%	CLO1, CLO2, CLO3
A4. Final Examination	The 2-hour closed-book comprehensive Final Examination shall be held during the assessment period.	48%	CLO1, CLO2, CLO3
	Total	100%	

### **STANDARDS FOR ASSESSMENT**

#### **Course Grade Descriptors**

A+, A, A-	Strong evidence of excellent ability to fulfill the intended course learning outcomes.
B+, B, B-	Strong evidence of very good ability to fulfill the intended course learning outcomes.
C+, C, C-	Evidence of good ability to fulfill the intended course learning outcomes.
D+, D	Evidence of basic familiarity with the subject.
F	Little evidence of basic familiarity with the subject.

#### **Assessment Rubrics for Each Assessment**

<b>Standards</b>	<b>Assessment Rubrics for Problem Set Exercises, Budget mini-paper, Term Test &amp; Final Examination</b>
Excellent A+, A, A-	Excellent ability to analyze and answer the question posed. Answer is exceptionally well organized and the principles, theories, derivations, results, real-world policy applications and/or examples put forth are all correct and relevant. Answer reflects an excellent grasp of public microeconomics and economic intuition.
Very Good B+, B, B-	Very good ability to analyze and answer the question posed. Answer is very well organized and the principles, theories, derivations, results, real-world policy applications and/or examples put forth are largely correct and relevant. Answer reflects a very good grasp of public microeconomics and economic intuition.
Good C+, C, C-	Good ability to analyze and answer the question posed. Answer is reasonably well organized and the principles, theories, derivations, results, real-world policy applications and/or examples put forth are partly correct and relevant. Answer reflects a good grasp of public microeconomics and economic intuition.
Adequate D+, D	Adequate ability to analyze and answer the question posed. Answer is disorganized and the principles, theories, derivations, results, real-world policy applications and/or examples put forth are mostly incorrect and irrelevant. Answer reflects a minimal grasp of public microeconomics and economic intuition.
Poor F	Poor ability to analyze and answer the question posed. Answer is very disorganized and the theories, derivations, results, real-world policy applications and/or examples put forth are largely incorrect and irrelevant. Answer reflects a poor grasp of public microeconomics and economic intuition.

## REQUIRED/RECOMMENDED READINGS & ONLINE MATERIALS

N.B. Required (\*), Recommended textbooks ( )

### TEXTBOOKS:

\*Rosen, Harvey S., and Ted Gayer (2014), *Public Finance*, 10<sup>th</sup> edition, Global Edition, Berkshire, U.K.: McGraw-Hill Education. OR *Public Finance*, 9<sup>th</sup> edition, OR *Public Finance*, 2008, 8th edition, OR single-authored Rosen's *Public Finance*, 2005, 7th edition. (Available at the HKU Bookstore at the International Edition price of US\$36.90 net (i.e., US\$41 less 10% student discount), thus at HK\$287.90 the paperback is very good value for money. Compare with the hardcover edition available from McGraw-Hill at US\$298 and Amazon.com at US\$223.41.) Reported prices are for 2016. The companion Student Website is at: [Public Finance Information Center: http://highereducation.com/sites/0078021685/information\\_center\\_view0/index.html](http://highereducation.com/sites/0078021685/information_center_view0/index.html) US edition

[http://novella.mhhe.com/sites/007715469x/information\\_center\\_view0/](http://novella.mhhe.com/sites/007715469x/information_center_view0/) Global edition

It contains the following links: [Table of Contents](#), [About the Authors](#), [Book Preface](#), [Sample Chapter](#), [What's New](#), [Feature Summary](#), [Supplements](#), [Chapter Summaries](#) (Choose a chapter), [Web Links](#), [Glossary](#)

Gruber, Jonathan (2016), *Public Finance and Public Policy*, 5<sup>th</sup> edition, New York, New York: Worth Publishers.

Bruce, Neil (2001), *Public Finance and the American Economy*, 2<sup>nd</sup> edition, Reading, Massachusetts: Addison-Wesley Longman, Inc. For the sample chapter \*Ch. 4 on "Externalities and Public Policy", click onto: <http://www.aw-bc.com/info/bruce/sample.html> (Sample chapter)

Boadway, Robin W., and David E. Wildasin (1984), *Public Sector Economics*, 2<sup>nd</sup> edition, Toronto: Little, Brown & Co. (Translated to Chinese by Liangjing Publishing Studio, 2000, 425 pages.)

## COURSE CONTENT AND TENTATIVE TEACHING SCHEDULE

N.B. Required (\*), Recommended articles ( )

*TOPICS TO BE COVERED* (tentative). 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 of the most recent versions of *Public Finance* by Harvey S. Rosen and Ted Gayer (2014), USA edition and Global edition; 10<sup>th</sup> edition, (2010), 9<sup>th</sup> edition, (2008), 8<sup>th</sup> edition, 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), "[Congestion Pricing and Road Investment](#)"  
Transport and Housing Bureau (2015), "[Electronic Road Pricing Pilot Scheme in Central and its Adjacent Areas Public Engagement Document](#)"
6. Political Economy
7. Education (new in 8<sup>th</sup> edition)
8. Cost-Benefit Analysis  
Layard and Glaister (1994), "[Introduction](#)"

### *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 focus on the HKSAR Budget, in Part V we cover those sections, figures and diagrams related to public microeconomics and/or those issues applicable to Hong Kong)*

\*HKSAR Government (2017), The Budget 2017-18, Speech to be delivered by the Financial Secretary, Mr. Paul CHAN Mo-po, moving the Second Reading of the Appropriation Bill 2016 at the Legislative Council on Wednesday, February 22<sup>nd</sup>, 2017 at 11 a.m.

Last year's HKSAR budget, [The Budget 2016-17](http://www.budget.gov.hk/2016/eng/speech.html), is archived at:

<http://www.budget.gov.hk/2016/eng/speech.html>

\*[Public Consultation on 2017 Policy Address and 2017-18 Budget](#)

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):*

\*Transport and Housing Bureau (2015), "[Electronic Road Pricing Pilot Scheme in Central and its Adjacent Areas Public Engagement Document](#)", HKSAR Government, December 11, 2015, 3-month Public Consultation ended on March 18, 2016, 66 pages plus 9 pages of appendices.

\*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.

\*Layard, Richard, and Stephen Glaister (1994), "[Introduction](#)", in Richard Layard and Stephen Glaister (1994), *Cost-Benefit Analysis*, Cambridge, England: Cambridge University Press, pp. 1-56.

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*, 2<sup>nd</sup> edition, Cincinnati, Ohio: South-Western College Publishing, Selection 17, pp. 107-120.

Hall, Robert E., and Alvin Rabushka (1995), *The Flat Tax*, 2<sup>nd</sup> 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 and 3, especially the section modeled after Hong Kong's flat tax system, pp. 28-31.