

# Public Economics ECS3704

## Course structure



**Learn without limits.**

**UNISA**

  
college of  
economic and  
management sciences

# Course layout and structure

- Textbook (BCS)
  - Black, P, Calitz, E. and Steenekamp, TJ. 2014. Public Economics. 6<sup>th</sup> Edition. Cape Town: Oxford University Press
- Short overview (Study unit 1-11)
  - BCS Chapter 2-8, 10-12 and 17
  - Market mechanism & public choice
  - Government Expenditure
  - Government Revenue and Fiscal Federalism

# Notes

- Budget speech (February 2015)
- Tax changes as promised with MTBPS (2014)
- Micro-economics – revision essential!!

# Study unit 1

## Benchmark model: positive and normative

- Explain the basic assumption of benchmark
- Explain benchmark and allocative efficiency
- Define Pareto optimal allocation of resources
- Define X-efficiency and economic growth
- Market failure
- How to rectify market failure
- Direct and indirect government intervention
- Government failure

# Welfare economics

- Optimality of market mechanism
  - A.1 Welfare Economics - models
  - A.2 Market failures
  - A.3 Bureaucratic failures
- B: Public Choice
  - B.1 Nature & role of government
  - B.2 Processes of public choice

# Bergson

- Problem of relative scarcity
  - P diamonds/P doughnuts
- Welfare economics
- Welfare includes utility
- Models for optimal solutions
- Bergson based on social welfare function(W)
- Whole society's welfare
  - Normative: How it should/could be?

# Pareto

- Non-optimal: Make one better off without harming another
- Best possible point of optimality for all
- Pareto-optimality/efficiency
- Positive: How it has to/must be?

# General equilibrium

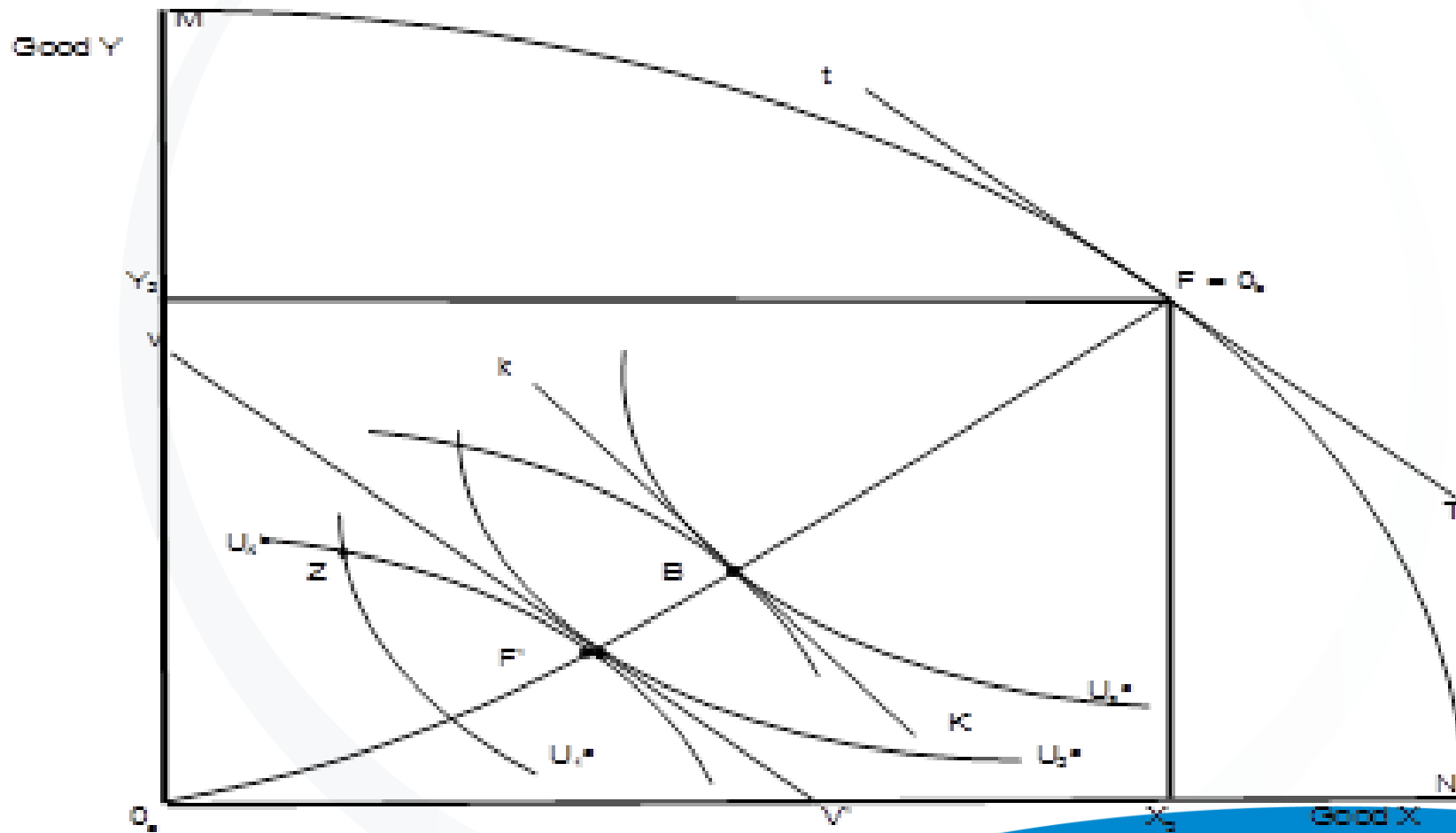
- Simultaneous consumer, producer equilibrium

$$MRPT_{xy} = \frac{MC_x}{MC_y} = \frac{P_x}{P_y} = MRS^a_{xy} = MRS^b_{xy}$$

- Economic efficiency
- Allocative and Technical efficiency



# General equilibrium



# Inefficiencies in market

- Market failures
  - Imperfect information
  - Social costs of monopolies
  - Externalities
  - Public goods
- 
- Direct vs indirect government intervention

# Government failures

- Politicians
- Bureaucracy
- Public employees
- Self-interest