PUBLIC ECONOMICS

BACHELOR IN POLITICS, LAW AND ECONOMICS
Professor: JAVIER CAPAPE AGUILAR
E-mail: jcapape@faculty.ie.edu

Academic year: 18-19
Degree course: SECOND
Semester: 2º
Category: COMPULSORY
Number of credits: 6.0
Language: English

PREREQUISITES
Introduction to Economics & Microeconomics

SUBJECT DESCRIPTION
The presence of governments and their influence on the development of economies and societies is undeniable. With the rise of the state capitalism, the mixed economic model followed in multiple countries (from China to Russia, through Singapore or the Gulf Cooperation Council countries), to understand the role of the state in the economy stands as a critical task for business managers, policymakers, lawyers and politicians, globally.

This course will help the student to understand daily newspapers fronts when talking about corporate taxation, education policies or the failures of both markets and governments. It provides necessary tools and understanding of the role of the public sector and governments interacting with corporations and individuals.

Following rigorous economic theory, matched with empirical research evidence and policy analysis, Public Economics will explore in depth the implications of externalities, the normative role of governments to attain social welfare and solve inequalities, the failures of markets and governments, or the critical incidence of taxation on individual and corporate decisions.

The course will be seasoned with the concepts developed by recent Nobel Prize winners such as the idea of "common goods" (Elinor Ostrom) or the "economics of common good" (Jean Tirole). These topics would allow students to use their acquired concepts and experiences for enriching discussions.

OBJECTIVES AND SKILLS
Students will incorporate important concepts and understand realities linked to the influence of governments in the economy. These will help students to understand regulations, interact with governments, understand collective actions and incentives, as well as to identify risks and opportunities linked to public goods and to anticipate market and nonmarket outcomes. Critically, this course will help to understand the secondary effects of taxation ("incidence") and how proposed social and economic policy reforms should take this important concept into consideration.
METHODOLOGY
The course will use concepts and analytical tools developed in the subjects Introduction to Economics and Microeconomics.

<table>
<thead>
<tr>
<th>Teaching methodology</th>
<th>Weighting</th>
<th>Estimated time a student should dedicate to prepare for and participate in</th>
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<tbody>
<tr>
<td>Lectures</td>
<td>33.33 %</td>
<td>50 hours</td>
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<tr>
<td>Discussions</td>
<td>16.67 %</td>
<td>25 hours</td>
</tr>
<tr>
<td>Exercises</td>
<td>33.33 %</td>
<td>50 hours</td>
</tr>
<tr>
<td>Group work</td>
<td>16.67 %</td>
<td>25 hours</td>
</tr>
<tr>
<td>Other individual studying</td>
<td>0.0 %</td>
<td>0 hours</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100.0 %</td>
<td>150 hours</td>
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PROGRAM

INTRODUCTION

SESSION 1
Why study public economics?
Chapter 1 - Gruber, 5th edition.

SESSIONS 2 - 3
Theoretical and Empirical Tools
Chapters 2-3 - Gruber, 5th edition

SESSIONS 4 - 5
Second Welfare Theorem.
Chapter 2, Section "From Social Efficiency to Social Welfare: The Role of Equity" - Gruber, 5th edition.

Exercises and Discussion.

SESSIONS 6 - 7
Roles of the government: Externality theory.
Chapter 5, Gruber, 5th edition.

Exercises and Discussion.

SESSIONS 8 - 9
Cost-benefit analysis.
Chapter 8, Gruber, 5th edition.

Exercises and Discussion.
EXTERNALITIES, PUBLIC GOODS AND POLITICAL ECONOMY
SESSIONS 10 - 11
Externalities in Action: Climate Change and Tobacco.
Chapter 6, Gruber, 5th edition.

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Exercises and Discussion.

SESSIONS 12 - 13
Political Economy.
Chapter 9 - Gruber, 5th edition.

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Exercises and Discussion.

SESSION 14
Public Choice theory.
Chapter 9 - Gruber, 5th edition.
"Politics without romance - J. Buchanan (2003). Available at Politics without romance

SESSION 15
Public provision of private goods: The case of Education.
Chapter 11 - Gruber, 5th edition.

SESSION 16
MID-TERM EXAM.

SESSIONS 17 - 18
Types of taxation & Tax incidence.

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Exercises and Discussion.

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Exercises and Discussion.
TAX INCIDENCE AND OPTIMAL TAXATION
SESSIONS 19 - 20
Optimal taxation.
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Exercises and Discussion.

SESSIONS 21 - 22
Taxes on labor supply.
Chapter 21 - Gruber, 5th edition.
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Exercises and Discussion.

SESSIONS 23 - 24
Taxes on savings.
Chapter 22 - Gruber, 5th edition.
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Exercises and Discussion.

SESSIONS 25 - 26
Taxes on risk taking and wealth.
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Exercises and Discussion.

SESSIONS 27 - 28
Corporate taxation.
Chapter 24 - Gruber, 5th edition.
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Exercises and Discussion.

SESSION 29
In-class Group Presentations.

SESSION 30
FINAL EXAM.
6.1. GENERAL OBSERVATIONS
Each student has four attempts over two consecutive academic years to pass this course.
Dates and location of the final exam will be posted in advance and will not be changed.
Students must attend at least 70% of the sessions. Students who do not comply with the 70% attendance rule will receive a 0.0 on their first and second attempts and go directly to the third one (they will need to enroll in this course again the following academic year).

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Group Presentation</td>
<td>20 %</td>
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<tr>
<td>Class Participation &amp; Practical Assignments</td>
<td>20 %</td>
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<tr>
<td>Midterm Exam</td>
<td>30 %</td>
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<tr>
<td>Final Exam</td>
<td>30 %</td>
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6.2. EVALUATION CRITERIA

Group Presentation
You are expected to complete a project with your group and present it in written form.
More details of the project will be provided by the start of the course.

Class Participation & Practical Assignments
The instructor will incentivize and reward questions and comments from students during lectures and practical lessons.
Two main criteria will be used to judge your class participation:
- Frequency: It refers to the attainment of a threshold quantity of contributions that is sufficient for making a reliable assessment of comment relevance. The logic is that if contributions are too few, one cannot reliably assess the quality of your remarks. However, once threshold quantity has been achieved, simply increasing the number of times you talk does not improve your evaluation, so please do not try to steal the show, and do not sacrifice quality for quantity.
- Relevance: This is the most important dimension of participation. A relevant comment reveals depths of insight, rigorous use of case evidence, and most importantly it helps to move your peers’ understanding forward.

Practical assignments should be handed in / emailed on time when required. During practical sessions some of you can voluntarily help the instructor to resolve exercises at the whiteboard. In other occasions you would be assigned randomly to help with the solution of exercises too.

Midterm and Final Exam
Both exams will have a similar structure. They will consist of two parts. First part, will include multiple choice questions.
The second part will consist of analytical questions. The final exam will include all course material.
6.3. RETAKE POLICY

Any student whose weighted final grade is below 5 will be required to sit for the retake exam to pass the course (except those not complying with the attendance rules, whom are banned from this possibility).

Grading for retakes will be subject to the following rules:

The retakes will consist of a comprehensive exam. The grade will depend only on the performance on this exam; continuous evaluation over the semester will not be taken into account.

The exam will be designed bearing in mind that the passing grade is 5 and the maximum grade that can be attained on the second and fourth attempts is 8 out of 10. The third attempt will require the student to complete: a written assignment, a midterm, a final exam.

This is also applicable to students who do not have required attendance, e.g. sickness.

Dates and location of the retakes will be posted in advance and will not be changed.

PROFESSOR BIO

Professor: JAVIER CAPAPE AGUILAR
E-mail: jcapape@faculty.ie.edu

Javier Capapé, PhD.

Javier Capapé, PhD is the Director of the Sovereign Wealth Research program at the Center for the Governance of Change and Adjunct Professor at the School of Global & Public Affairs, at IE Business School and IE University, respectively. He has been Consultant at the United Nations Environment Program (UNEP) on Sovereign Wealth Funds and Sustainable Development Goals. Since 2012, he is SovereigNET Research Affiliate at The Fletcher School (Tufts University) and Co-Editor of the Sovereign Wealth Funds Reports series at IE. He has published in top academic journals such as the Academy of Management Perspectives and Oxford University Press. His research has been regularly cited in international media (including The Economist, Wall Street Journal, Financial Times, Reuters). He participates in sovereign fund events organized by the World Bank, the International Forum of SWFs, or the Bank of International Settlements. His latest research jointly with Ruth Aguilera (Northeastern University), Vicente Bermejo (ESADE Business School), and Vicente Cuñat (London School of Economics) studies the equity holdings of Norway’s sovereign wealth fund and how it improves the governance monitoring controls of its portfolio companies. It was awarded the CNMV Best Paper Award in the XXV Forum of the Spanish Finance Association (2017).

OTHER INFORMATION

Office hours: By appointment.
Contact: javier.capape@ie.edu
CODE OF CONDUCT IN CLASS

1. Be on time: Students arriving more than 5 minutes late will be marked as “Absent”. Only students that notify in advance in writing that they will be late for a specific session may be granted an exception (at the discretion of the professor).

2. If applicable, bring your name card and strictly follow the seating chart. It helps faculty members and fellow students learn your names.

3. Do not leave the room during the lecture: Students are not allowed to leave the room during lectures. If a student leaves the room during lectures, he/she will not be allowed to re-enter and, therefore, will be marked as “Absent”.

Only students that notify that they have a special reason to leave the session early will be granted an exception (at the discretion of the professor).

4. Do not engage in side conversation. As a sign of respect toward the person presenting the lecture (the teacher as well as fellow students), side conversations are not allowed. If you have a question, raise your hand and ask it. If you do not want to ask it during the lecture, feel free to approach your teacher after class.

If a student is disrupting the flow of the lecture, he/she will be asked to leave the classroom and, consequently, will be marked as “Absent”.

5. Use your laptop for course-related purposes only. The use of laptops during lectures must be authorized by the professor. The use of Social Media or accessing any type of content not related to the lecture is penalized. The student will be asked to leave the room and, consequently, will be marked as “Absent”.

6. No cellular phones: IE University implements a “Phone-free Classroom” policy and, therefore, the use of phones, tablets, etc. is forbidden inside the classroom. Failing to abide by this rule entails expulsion from the room and will be counted as one absence.

7. Escalation policy: 1/3/5. Items 4, 5, and 6 above entail expulsion from the classroom and the consequent marking of the student as “Absent.” IE University implements an “escalation policy”: The first time a student is asked to leave the room for disciplinary reasons (as per items 4, 5, and 6 above), the student will incur one absence, the second time it will count as three absences, and from the third time onward, any expulsion from the classroom due to disciplinary issues will entail 5 absences.