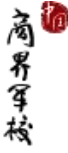




# PHBS

北京大学汇丰商学院



# ECON 540 Public Finance Module 1, 2024/2025

## Course Information

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**Instructor: Lin, Shuanglin**

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Office Hour: M., Th. 17:30 -18:30 or by appointment

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**Classes: Public Finance**

Lectures: Monday & Thursday 15:30 -17:20

Venue: PHBS Building, Room ?

**Course Website:**

If any.

## 1. Course Description

### 1.1 Context

Course overview:

This course covers modern public economic theory and its applications. Specifically, it covers fundamental theorems of welfare economics, externalities, public goods, taxation, government expenditure and infrastructure development, income redistribution, government debt and deficits, social security, health insurance, fiscal policies and economic growth; it presents the dynamic model of overlapping generations in public finance; and it addresses essential issues in China's public finance.

Prerequisites: Microeconomics and Macroeconomics

### 1.2 Textbooks and Reading Materials

Reference Books:

Leach, John, 2004, *A Course in Public Economics*, New York: Cambridge University Press.

Lin, Shuanglin, 2022, *China's Public Finance: Reforms, Challenges, and Options*, Cambridge University Press.

Reading Materials: Journal Articles.

## 2. Learning Outcomes

### 2.1 Intended Learning Outcomes

Learning Goals	Objectives
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.
	2.2. Students will be able to apply leadership theories and related skills.
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.
	3.2. Our students will practice ethics in the duration of the program.
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.
	4.2. Students will have adequate knowledge of international business environment.
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.
	5.2. Our students will be prepared to face problems in various business settings and find solutions.
	5.3. Our students will demonstrate competency in critical thinking.

### 2.2 Course specific objectives

This course provides the students with an understanding of modern public economic theory and its applications. The course will improve the students' critical thinking and analytical skills and ability to solve real world problems.

### 2.3 Assessment/Grading Details

#### Grading System:

Exam -----	45%
Homework Assignments -----	15%
Class participation (attendance) -----	10%
Team Project and Presentation -----	30%

Homework will be assigned periodically and students are required to complete each homework independently.

Exam will be a closed-book exam and any digital devices are not allowed to be used during the exam. Makeup exam will be given only for compelling reasons and no makeup exam will be given to students without prior arrangement.

A team research project should be completed and presented in class. Students can form a team voluntarily. Any topic in public finance is fine, and a topic of the research project should be submitted by October 14. The presentation must have clear research question, concrete research method, and accurate sources (citation). The outcome should be original not copy other's work. Before the presentation, each team should submit both the presentation slide and detailed explanation and supporting materials about each student's contribution. Moreover, every member of each team should take part in presenting the team project outcome.

## **2.4 Academic Honesty and Plagiarism**

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honours, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

## **3. Topics, Teaching and Assessment Schedule**

<b>Date</b>	<b>Topics or Events</b>
Sept. 2	Introduction
Sept. 5, 9	General Equilibrium and Pareto Optimality
Sept. 12	Externalities and Environmental Protection
Sept. 14	Public Goods
Sept. 19	Impure Public Goods
Sept. 23	Income Distribution
Sept. 26	The OLG Model in Public Finance
Sept. 30	Labor and Capital Income Taxation
Oct. 9	Value-Added Tax and Commodity Tax
Oct. 10	Government Expenditure and Infrastructure Development
Oct. 14	Social Security
Oct. 17	Healthcare
Oct. 21	Government Debt and Deficits
Oct. 24	Fiscal Policies and Economic Growth
Oct. 28	Current Issues in China's Public Finance
Oct. 31	Presentations
Nov. 4, 7	Presentations
Nov. 11	Final Exam

### **Some Recommended Readings**

#### **1. Introduction:**

Diamond, Peter, 2002, "Public Finance Theory-Then and Now," *Journal of Public Economics* 86, 311-317.

Lin, S., 2022, Chapter 1. Introduction, *China's Public Finance: Reforms, Challenges and Options*, Cambridge University Press, 2022.

## **2. General Equilibrium and Pareto Optimality**

Leach, 2004, Ch. 4

## **3. Externalities**

Leach, 2004, Ch. 6-7

Bovenberg, A. Lans, and Ruud A. de Mooij, 1994, "Environmental Levies and Distortionary Taxation," *American Economic Review* 84, 1085-1089.

Coase, Ronald, 1960, "The Problem of Social Cost," *Journal of Law and Economics* 3, 1-44.

Varian, Hal R., 1994, "A Solution to the Problem of Externalities when Agents Are Well-Informed," *American Economic Review* 84, 1278-1293.

## **4. Public Goods**

Leach, 2004, Ch. 10.

Bergstrom, Theodore, Lawrence Blume, and Hal Varian, 1986, "On the Private Provision of Public Goods," *Journal of Public Economics* 29 (February), 25-49.

Sandmo, Agnar, 1998, "Redistribution and the Marginal Cost of Public Funds," *Journal of Public Economics* 70 (December), 365-382.

## **5. Impure Public Goods**

Leach, 2004, Ch. 12

Oakland, William H., 1972, "Congestion, Public Goods and Welfare," *Journal of Public Economics* 1 (3-4), 339-357.

## **6. Income Redistribution**

Leach, 2004, Ch 11.

Aizer, Anna, Shari Eli, Joseph Ferrie, Adriana Lleras-Muney, 2016, "Long Run Impact of Cash Transfers to Poor Families," *American Economic Review* 106,935-971.

Coate, S., 1995, "Altruism, the Samaritan's Dilemma, and Government Transfer Policy," *American Economic Review* 85(March), 46-57.

Warr, Peter, 1982, Pareto optimal redistribution and private charity, *Journal of Public Economics* 19, 131-38.

Reindl, I., & Tyran, J. R. (2021). Equal opportunities for all? How income redistribution promotes support for economic inclusion. *Journal of Economic Behavior & Organization* 190, 390-407.

## **7. The Overlapping Generations Model in Public Finance**

Auerbach, Alan, and Lawrence Kotlikoff, 1987, *Evaluating Fiscal Policy with a Dynamic Simulation Model*, Cambridge: Cambridge University Press.

Diamond, Peter A., 1965, "National Debt in a Neoclassical Growth Model," *American Economic Review* 55, 1125-50.

## **8. Income Taxation**

Lin, S., 2022, Chapters 4 and 5.

Diamond, Peter A., 1970, "Incidence of an Interest Income Tax," *Journal of Economic Theory* 2, 211-24.

Lin, S., 1998, "Labor Income Taxation and Human Capital Accumulation," *Journal of Public Economics* 68, 291-302.

Mankiw, N. Gregory, Matthew Weinzierl, and Danny Yagan, 2009, "Optimal Taxation in Theory and Practice." *Journal of Economic Perspectives*, 23(4): 147-174.

Mirrlees, James A., 1971, "An Exploration in the Theory of Optimum Income Taxation." *Review of Economic Studies*, 38(2): 175-208.

Diamond, Peter A., 1998, "Optimal Income Taxation: An Example with a U-shaped Pattern of Optimal Marginal Tax Rates." *American Economic Review*, 88(1): 83-95.

Wu, C., & Krueger, D. (2021). Consumption insurance against wage risk: Family labor supply and optimal progressive income taxation. *American Economic Journal: Macroeconomics*, 13(1), 79-113.

Juan Carlos Conesa, Sagiri Kitao, and Dirk Krueger, 2009, "Taxing Capital? Not a Bad Idea After All!" *American Economic Review* 99 (1), 25-48.

Liu, Yongzheng, and Jie Mao, 2019, "How Do Tax Incentives Affect Investment and Productivity? Firm-Level Evidence from China," *American Economic Journal: Economic Policy* 11(3), 261-291.

Tao, P., Gong, F., & Zhu, K. (2023). Tax competition among local governments: Evidence from the spillovers of location-based tax incentives in China. *China Economic Review* 82(C).

## 9. Value-Added Tax, and Commodity Tax

Leach, 2004, Ch. 6-7

Lin, S., 2022, Chapter 3. Value-added Tax, Consumption Tax and Other Taxes on Goods and Services.

Lin, S., 2008, "China's Value-added Tax Reform, Capital Accumulation, and Welfare Implications," *China Economic Review* 19, 197-214.

Pomeranz, Dina, 2015, "No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax," *American Economic Review* 105.

Yang, Y., & Zhang, H. (2021). The value-added tax reform and labor market outcomes: Firm-level evidence from China. *China Economic Review* 69(C).

Benzarti, Y., Carloni, D., Harju, J., & Kosonen, T. (2020). What goes up may not come down: asymmetric incidence of value-added taxes. *Journal of Political Economy* 128(12), 4438-4474.

## 10. Government Expenditure and Infrastructure Development

Lin, S., 2022, Chapter 7. Infrastructure Development and Financing.

McRae, Shaun, 2015, "Infrastructure Quality and the Subsidy Trap," *American Economic Review* 105, 35-66.

Park, Albert; Wang, Sangui, 2010, Community-Based Development and Poverty Alleviation: An Evaluation of China's Poor Village Investment Program, *Journal of Public Economics* 94 (Oct), 790-799

Wong, H. L., Luo, R., Zhang, L., & Rozelle, S., 2013, "Providing Quality Infrastructure in Rural Villages: The Case of Rural Roads in China," *Journal of Development Economics* 103, 262-274.

Glaeser, E. L., & Poterba, J. M. (2020). Economic analysis and infrastructure investment, National Bureau of Economic Research Working Paper, No. w28215.

## 11. Social Security

Lin, S., 2022, Chapter 8. Social Security Reforms.

Feldstein, Martin, 1985, "The Optimal Level of Social Security Benefits," *Quarterly Journal of Economics*.

Feldstein, Martin, 1999, "Social Security Pension Reform in China," *China Economic Review* 10, 99-107.

Li, C., and S. Lin, 2019, "China's Explicit Social Security Debt: How Large?" *China Economic Review* 53 (February), 28-139.

Song, Z., Storesletten, K., Wang, Y., and Zilibotti, F., 2015, "Sharing High Growth across Generations: Pensions and Demographic Transition in China," *American Economic Journal: Macroeconomics* 7(2), 1-39.

Xiao, R., Xu, P., & Huang, B. (2024). Tax incentives and firm social insurance contributions: Evidence from China. *China Economic Review* 86(C).

## 12. Healthcare

Lin, S., 2022, Chapter 8. Social Security Reforms.

Cheng L, Liu H, Zhang Y, et al. 2018, "The Health Implications of Social Pensions: Evidence from China's New Rural Pension Scheme, *Journal of Comparative Economics* 46(1), 53-77.

Liu, L, and Y. Zhang, 2018, Does Non-employment Based Health Insurance Promote Entrepreneurship? Evidence from a Policy Experiment in China, *Journal of Comparative Economics* 46(1), 270-283.

Lu, Yi, Julie Shi, and Wanyu Yang, 2019, "Expenditure Response to Health Insurance Policies: Evidence from Kinks in Rural China, *Journal of Public Economics* 178.

Jiang, W., Chen, Q., Lou, X., Song, L., & Chen, Z. (2024). Impact of a health system vertical integration program on patient expenditures and healthcare utilization: Evidence from county hospitals in East China. *China Economic Review* 87(1).

## 13. Government Debt and Deficits

Lin, S., 2022, Chapter 10. China's Local Government Debt.

Auerbach, Alan and Yuriy Gorodnichenko, 2017, Fiscal Stimulus and Fiscal Sustainability, NBER Working Paper 23789.

Blanchard, Olivier J., 2019, Public Debt and Low Interest Rate, *American Economic Review*, 109 (4): 1197-1229.

Battaglini, Marco, and Stephen Coate, 2008, "A Dynamic Theory of Public Spending, Taxation, and Debt." *American Economic Review* 98: 201-236.

Wallis, John Joseph, 2000, "American Government Finance in the Long Run: 1790 to 1990," *The Journal of Economic Perspectives* 14(1), 61-82.

Qu, X., Xu, Z., Yu, J., & Zhu, J. (2023). Understanding local government debt in China: A regional competition perspective. *Regional Science and Urban Economics* 98.

## 14. Fiscal Policies and Economic Growth

Lin, S., 2022, Chapter 12. Fiscal Reforms for Equitable and Sustainable Growth.

Barro, Robert, 1990, "Government Spending in a Simple Model of Endogenous Growth," *Journal of Political Economy* 98, 103-125.

Fischer, Stanley, 1993, "Macroeconomic Factors in Growth," *Journal of Monetary Economics* 32, 485-512.

Arnold, Jens, 2008, "Do Tax Structures Affect Aggregate Economic Growth? Empirical Evidence from a Panel of OECD Countries," *OECD Economics Department Working Papers* 643.

Xiao, Han, Xinye Zheng, and Lunyu Xie, 2022, "Promoting Pro-poor Growth through Infrastructure Investment: Evidence from the Targeted Poverty Alleviation program in China," *China Economic Review* 71(C).

Faria-e-Castro, M. (2021). Fiscal policy during a pandemic. *Journal of Economic Dynamics and Control* 125.

## 15. Current Issues in China's Public Finance