



MARBELLA
INTERNATIONAL
UNIVERSITY
CENTRE

Module Study Guide

Academic Year 2021–2022

Economics of Public Policy

Credits: 2 ECTS

Academic Partner: MGIMO

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1 Module overview

1.1 Introduction

Welcome to the module!

This module considers the role of the government and investigates various public interventions in the market economy. The analysis focuses on various instances of market failure and considers alternative government responses. This includes the study of constraints faced by the government when designing its interventions. The module also examines various aspects of the rationale of redistributive policies. Upon completing this module, you should be able to provide answers to the following questions: When should the government intervene in the economy? How might the government intervene? And what are the effects of those interventions on economic outcomes?

1.2 Module summary content and aims

The module Economics of Public Policy is designed to help you develop the understanding and knowledge of key economic concepts and economics as a practical analytical tool. The aim is to introduce you to main principles of economics in exploring how and why government implement some certain policies and examining the impacts of public policies on social welfare. It provides you a basic knowledge of how economic policies are made and how the economy as a whole works, decisions and interactions of people with regard to finances and goods.

Topics covered in the module include demand and supply analysis, public goods, externalities and their regulation, the data of macroeconomics, national income determination, taxation, and national budget, monetary and fiscal policy.

In this module, you will be required to carry out three in-class exercises and an individual policy analysis which relates to public policies. In your policy analysis, you will choose one public policy from the given pool of policies, describe the policy and examine the impact on various parties of interest. This task will develop your analytical skills and build on your self-study.

This module will run throughout the semester (14 weeks).

1.3 Learning outcomes to be assessed

- LO1.** Demonstrate comprehensive knowledge and understanding of public economics and public finance (Assessment 1 and 4)
- LO2.** Critically evaluate the impacts and the effectiveness of a public policy taking into account all relevant information (Assessment 3 and 4)
- LO3.** Solve economic and public policy problems under various scenarios (Assessment 4)
- LO4.** Apply and manipulate economic models, and to read and effectively communicate the empirical literature, in the area of public policy (Assessment 2 and 4)

1.4 Indicative Contact Hours

Teaching Contact Hours	56 hours
Independent Study Hours	44 hours
Total Learning Hours	100 hours

1.5 Summative assessment grid

Type of Assessment	Word Count or equivalent	Threshold (if Professional Body-PSRB applies)	Weighting	Pass Mark	Indicative Submission week	Method of Submission & Date of Feedback (refer to NEOImS)
A1: Written Examination (In-class exercise 1)	300 words (+/-10%)	n/a	10%	50	Week 4 (Date and Time TBC)	Via NEOImS & 5 working days after in-class exercises
A2: Written Examination (In-class exercise 2)	300 - 500 words	n/a	10%	50	Week 9 (Date and Time TBC)	Via NEOImS & 5 working days after in-class exercises
A3: Written Examination (In-class exercise 3)	400 - 600 words	n/a	10%	50	Week 12 (Date and Time TBC)	Via NEOImS & 5 working days after in-class exercises
A4: Written Assignment Policy Analysis	2500 words (+/-10%)	n/a	70%	50	Week 15 (Date and Time TBC)	Via NEOImS & 10 working days after the assessment

1.6 Assessment brief including criteria mapped to learning outcomes

1.6.1 Assessment 1: In-class Exercise (1)

This assessment aims to familiarise you with the basic and key concepts of economics such as externality, public goods, free-riding problems, etc. In particular, it will focus on understanding the role of the government and the motivation of government intervention.

Assessment criteria for Assessment 1 (LO1 will be assessed)

These assessments will be marked according to the following criteria:

- ❖ **Knowledge and Understanding (90%):** Students need to understand the concepts in economics literature and relate them to the government's motivation in intervention.
- ❖ **Transferable Skills (10%):** Students need to communicate in a clear and cohesive manner.

1.6.2 Assessment 2: In-class Exercise (2)

This assessment requires students to discuss the limitation and implication of the median voter theorem.

Assessment criteria for Assessment 2 (LO4 will be assessed)

These assessments will be marked according to the following criteria:

- ❖ **Knowledge and Understanding (80%):** Students need to understand the concepts in economics literature and relate them to the government's motivation in policy making.
- ❖ **Transferable Skills (20%):** Students need to communicate in a clear and cohesive manner.

1.6.3 Assessment 3: In-class Exercise (3)

This assessment aims to provide you an opportunity to examine a particular government intervention, including the government motivation and the effectiveness of such a policy using the economic analysis.

Assessment criteria for Assessment 3 (LO2 will be assessed)

These assessments will be marked according to the following criteria:

- ❖ **Knowledge and Understanding (10%):** Students need to understand the concepts in economics literature and relate them to the government's motivation in intervention.
- ❖ **Cognitive Skills (40%):** Students need to examine the pros and cons of various tools of government uses for interventions and relate them to the government's objective functions
- ❖ **Practical/Professional Skills (40%):** Students need to select or propose the best intervention tool according to the government's objective function.
- ❖ **Transferable Skills (10%):** Students need to communicate in a clear and cohesive manner.

1.6.4 Assessment 4: Policy Analysis

The policy analysis will require you to choose a certain policy from the given pool of policies provided by the module leader and explore what the government's motivations and objectives are and how the policy influences different parties with various interests in the economy. It will enable you to exercise the analytical skills learnt in class and apply them in a policy analysis.

You will need to:

- Select one public policy from the pool of the topics that you are interested in and describe the content of the policy (If you would like to choose another policy outside of the pool, your choice needs to be approved by the module leader).
- Describe the country's environment before the implementation of policy (you can use data, chart, graph to present the environment) and relate it with the government's (policy

makers') objective

- The data, chart, or any information should be demonstrated that they are well related to the policy and related to the groups of people which are affected.
- Also, describe the objective of the government (why government implements this particular policy), using tools of political economics.
- Examine the impact of the policy on different groups of people. In particular, how different groups of people respond to the same policy, using economic tools.
 - Including concepts of price elasticity (tax and subsidy effect), externality (effects and solutions), re-distribution and inequality.

Assessment criteria for Assessment 4 (LO1-4 will be assessed)

These assessments will be marked according to the following criteria:

- ❖ **Knowledge and Understanding** (30%): Students need to identify why government intervenes and understand the policy contents, the aims of the policy and the economic background.
- ❖ **Cognitive Skills** (40%): Students need to analyse the impact of the policy on different parties (such as businesses, workers, young and old workers, etc.) using economic models.
- ❖ **Practical/Professional Skills** (20%): Students need to conclude whether the policy achieves its objectives.
- ❖ **Transferable Skills** (10%): Students need to communicate in a clear and cohesive manner.

For guidance on online submission of assignments, including how to submit and how to access online feedback, please refer to the MIUC NEOlms student guideline.

1.7 Learning materials

The reading list for this module is available on lms in the module area

1.7.1 Core textbook(s):

Coyle, D. (2020). *Markets, state, and people: economics for public policy*. Princeton, New Jersey: Princeton University Press.

Gruber, J. (2016) *Public Finance and Public Policy*, 5th Edition, Macmillan Learning

1.7.2 IT, audio-visual or learning technology resources

n/a

1.7.3 Other recommended reading:

Handbook(s):

Chan, S. (2012). "The Fiscal Challenge of an Aging Population in the U.S." The Oxford Handbook of Work and Aging. Oxford University Press.

Book(s):

Stiglitz, J. E. and Rosengard, J. K. (2015), *Economics of Public Sector*, 4th Edition, W. W. Norton & Company.

Articles:

Ball, L. and Mankiw, N. G. (1995). "What do budget deficits do?" in Budget Deficits and the Debt: Issues and Options, Federal Reserve Bank of Kansas City.

Benartzi, S. and Thaler, R. (2007). "Heuristics and Biases in Retirement Savings Behavior" Journal of Economic Perspectives, 21(3): 81–104.

Brown, S., Gale, W. G. and Looney, A. (2012). "On the Distributional Effects of Base Broadening Income Tax Reform" Tax Policy Center Research Report.

Kleven, H. J. (2014). "How Can Scandinavians Tax So Much?" Journal of Economic Perspectives, 28(4): 77-98.

Meyer, B. D., and Sullivan, J. X. (2012). "Identifying the Disadvantaged: Official Poverty, Consumption Poverty, and the New Supplemental Poverty Measure." Journal of Economic Perspectives, 26(3): 111-36

Piketty, T. and Qian, N. (2009). "Income Inequality and Progressive Income Taxation in China and India, 1986–2015." American Economic Journal: Applied Economics 1(2): 53- 63

Piketty, T. and Saez, E. (2007). "How Progressive is the U.S. Federal Tax System? A Historical and International Perspective" Journal of Economic Perspectives, 21(1): 3 - 24

1.7.4 Other resources:

The Core Team (2017). *The Economy*. [online] Available at <https://www.core-econ.org/the-economy/book/text/0-3-contents.html> [Accessed July 15, 2018].

Remember to log into MIUC lms daily to receive all the latest news and support available at your module sites!

2 Things you need to know

2.1 Engagement

During the academic year 2020-21, the health, welfare and safety of all our students and staff is our top priority as Spain continues to deal with the ongoing implications of the COVID-19 outbreak.

Face to-face-teaching, access to MIUC facilities and being part of our unique University community are key parts of the excellent student experience at MIUC. We have been working to create a safe and efficient plan that will allow us to deliver these elements when you start with us in the fall semester, subject to government regulation.

MIUC will be ready to teach in September and we are committed to engaging with you as closely as we can, and to ensuring that you have a rich educational experience that is safe and protected to ensure that you continue to get the most from the University life and the city of Marbella.

Whether you are engaging with teaching and learning activities on site or via the MIUC Virtual Learning Environment, we expect the same level of commitment and engagement from you. If you are unable to attend scheduled on site or online activities or complete activities in the timeframes set out, you should let your module leaders know. You should aim to stick to assessment deadlines; if you are concerned that you will not be able to complete your assessments on time, you should talk to your module leaders. Your engagement, whether online or on site, will be tracked and if we see that you are not engaging, we will get in contact with you. However, we encourage you to let us know if you are struggling so we can work with you to find solutions and get you back on track as soon as possible. Give yourself the best possible chance to succeed by engaging with the full range of learning and teaching activities available to you.

2.2 Need help, just ask

The University recognises that there are times when you may encounter difficulties during your course of study and provisions are made to help you. If you are struggling with meeting deadlines please talk to us, whether it's your course/module leader, personal tutor or any member of staff, speak to them so they can get you the support you need to succeed. You can extend your deadline if you have a good reason why you are not able to submit a piece of coursework on time, [apply online for an extension](#) before your deadline. An extension will allow you an extra 10 working days. If an extension is not sufficient and circumstances beyond your control are preventing you from completing your assessment, then you can, [apply online for mitigation](#).

Please remember late submission without extension or mitigation will result in penalties depending on how late it is, see [Academic Regulations](#).

You are reminded that MIUC applies penalties to students who commit an academic offence, in which case the Academic Offences Regulations will be used to deal with any cases of academic misconduct including examination offences, plagiarism and other means of cheating to obtain an advantage.

You are encouraged to seek advice from the Students' Union and counselling service which support you with all aspects of your academic experience by providing advice and guidance to ensure you are fully informed of the academic regulations as well as advocate for student views.

You are expected to behave in line with University expectations, irrespective of whether your interactions with staff and other students are in person or online. As you will be engaging with others online and a range of online materials, it is important to consider how to stay safe online and ensure

your communications are secure and appropriate. If you have any questions about how to manage your online activities, please contact your module leader.

If you have an issue about the module, you should speak to your Module Leader or Course Leader informally in the first instance. Your Course Representative can also raise your concerns at Course Committees, which take place each semester. If you are unable to resolve it informally, you should refer to the Complaints Procedure which is outlined in the student handbook and consult the Students' Union about it. The University aims to ensure that issues are resolved informally as quickly as possible to have minimum impact on your studies.

2.3 Getting support for your studies

Throughout your course of study, you will have access to a wide variety of sources of support depending on your individual circumstances and needs. Your first point of call for getting general academic support is your Personal Tutor. As well as approaching your Module Leader with any questions specifically related to your module and your Course Leader with questions on your Course, do contact your Personal Tutor for academic advice in relation your studies and your academic development.

Apart from the University-wide support framework, which encompasses the Module Leaders, Course Leader, the Subject Librarian and your Course Administrator, you will also have at your disposal the MIUC Academic Support Team. The Team offers Academic Skills Workshops throughout the year, helping you to develop skills relevant to your degree. Workshops include for instance Essay Planning and Writing; Critical Thinking; Reflective Writing; Group Work and Presentation Skills.

English Language support and One-to-one academic support opportunities are also available. For information about all these services, please consult the Academic Office.

2.4 Student support

In addition to the support listed in the previous section, there is also more help offered by MIUC Student services, consisting of Student Life Department, Internship Support, Life Coaching Service and Counselling service. They offer a wide range of support and services consisting of extracurricular activities; Careers and internship support; Student Welfare and Counselling.

Contact Student Services for more information at:

Student Life Department: student.life@miuc.org

Internship Support: cristina@miuc.org

Life Coaching Service: Ms. Ana Cante, ana.cante@miuc.org

Counselling Service: Ms. Eva Berkovic, eva@miuc.org

2.5 Module evaluation – have your say!

Towards the end of the module you will be invited to provide some anonymous feedback to the Module Leader through a (online) survey. This is your opportunity to give some direct feedback about the module through a series of questions and free text. Your constructive feedback will help the Module Leader and teaching team to understand the module experience from your perspective and helps inform the development of the module.

3 Appendix: Weekly Content

Week 1: Introduction to the Module

Key concepts/issues: Module organisation, structure and assignments, Re-cap introductory economic theory

Literature for this session:

- Coyle, D. (2020). The State and the Market. Chapter 1 in Coyle, D. Markets, State and People Princeton: Princeton University Press, pp. 1-43
- Mankiw, N. G. (2012) 'Principles of Economics', Chapter 1 in Mankiw, N. G. Principles of Economics, 6th Edition, Cengage Learning, pp. 3-20
- Mankiw, N. G. (2012) 'Thinking Like an Economist', Chapter 2 in Mankiw, N. G. Principles of Economics ,6th Edition, Cengage Learning, pp. 21-39
- Stiglitz, J. (2000) 'Market Efficiency', 3rd Edition, WW Norton & Company pp. 55-75 Economics of Public Sector ', Chapter 3 in Stiglitz, J.

This session will introduce you to the module organization, structure and assignments. You will explore the time commitments you will need to make and the skills you will develop through the duration of the module. It also offers a recap for students to re-familiarize the basic concepts of economics learnt in your previous study.

Week 2 and 3: Why do governments exist? – Government Objective and Externalities

Key concepts/issues: Market Failure: externalities, solutions to market failure

Literature for this session:

- Coyle, D. (2020). Markets, State and People Princeton: Princeton University Press.
- Gruber, J. (2010) 'Externalities and Public Goods', Chapter 5 in Gruber, J. Public Finance and Public Policy, 3rd edition, Worth Publisher, pp. 121-146
- Olivola C. (2015), Tax and Consumer Behaviour. The Cambridge Handbook of Consumer Psychology. https://www.researchgate.net/publication/294736693_Taxes_and_Consumer_Behavior

Week 2 and 3 will cover the reasons that why governments exist from an economic points of view. It introduces the key concepts of market failure, including positive and negative externalities, public goods and free-riding problems. Environmental and health externalities are discussed in class and solutions to these problems will also be examined. This week will also cover the application of public good provision of education. We will examine why the government is involved in providing education and how it involves in education.

Week 4 and 5: Cost-Benefits Analysis

Key concepts/issues: Policy analysis: cost and benefits, Measuring current and future costs/benefits.

Literature for this session:

- Oka, T "Effectiveness and Limitations of Cost-benefit Analysis in Policy Appraisal" http://report.jbaudit.go.jp/english_exchange/volume10/e10d02.pdf. Accessed 16th October, 2017
- Gruber, J. (2010) 'Cost-Benefit Analysis', Chapter 8 in Gruber, J. Public Finance and Public Policy, 3rd edition, Worth Publisher, pp. 205-223

This week will introduce the cost-benefit analysis for a given policy. We will examine how short run and long run cost and benefits are measured. We will also understand the limits and challenges when evaluating a policy.

Week 6: Political Economy

Key concepts/issues: Mechanism for aggregating individual preference, Theory and application in voting, Decision making under representative democracy, Public choice

Literature for this session:

- Gruber, J. (2010) 'Political Economy', Chapter 9 in Gruber, J. Public Finance and Public Policy, 3rd edition, Worth Publisher, pp. 227-260

This week will cover the key concepts and ideas of political economy, including how to aggregate individual preference. We will focus on the theory and application in voting. In particular, it introduces students to Media Voter Theory, including its assumption, outcomes and potential inefficiency. Evidence will be presented in class and the validity of Media Voter Theory will be examined. Furthermore, this week also introduces the public choice theory and the foundations of government failure will be included and discussed.

Week 7: Social Insurance

Key concepts/issues: Asymmetric information in insurance market: Adverse selection & moral hazard, Social insurance, Co-insurance, Social welfare

Literature for this session:

- Gruber, J. (2010) 'Social Insurance: The New Function of Government', Chapter 12 in Gruber, J. Public Finance and Public Policy, 3rd edition, Worth Publisher, pp. 319-352

This week will cover the key concepts and ideas of social insurance. We start by understanding why social insurance is needed in the economy by recognizing two main factors: adverse selection and moral hazard in the insurance market. Further, we will discuss other reasons for government intervention. Further, the differences between social and self insurance are examined, and finally the optimal social insurance will be derived.

Week 8 and 9: The Multiplier Model and Fiscal Policy

Key concepts/issues: How governments can dampen and amplify fluctuation, Crowdout

Literature for this session:

- Auerbach, A.J. (2003). Fiscal Policy, Past and Present. *Brookings Papers on Economic Activity*, 2003(1), pp.75–138.
- Cottrell, A. (2018). The Multiplier Model. [online] Available at: <http://users.wfu.edu/cottrell/ecn207/multipliers.pdf> [Accessed 20 Sep. 2020].
- García-Peñalosa, C. and Turnovsky, S. J. (2007). Growth, Income Inequality, and Fiscal Policy: What Are the Relevant Trade-offs? *Journal of Money, Credit and Banking*, 39(2–3), pp.369–394.

This week will introduce the multiplier model to examine the effect of government interventions on the economy. In particular, we will examine the impacts of fiscal policy on inflation and unemployment and crowd out effect.

Week 10 and 11: Monetary Policy

Key concepts/issues: The effect of monetary policy, Tradeoff between inflation and unemployment, Financial Crisis

Literature for this session:

- Christiano, L.J. and Fitzgerald, T.J. (2003). Inflation and Monetary Policy in the Twentieth Century. *SSRN Electronic Journal*.
- Henry Parker Willis and John Martin Chapman (1935). *The economics of inflation : the basis of contemporary American monetary policy*. New York: Columbia University Press.

This week will address one of the most important issues in today's society: financial crisis. We will examine how central bank uses policy rate to affect the economy. In addition, how it affects bankers' incentives and the relation to financial crisis.

Week 12: Globalisation and Trade

Key concepts/issues: Trade Theory: old vs. new, Inequality, TTIP: A trade agreement?

Literature for this session:

- Deraniyagala, S. (2001). New trade theory versus old trade policy: a continuing enigma. *Cambridge Journal of Economics*, 25(6), pp.809–825.
- Finegold, J. (2014). Krugman's Alternative Theory of Trade | *Economic Thought*. [online] *Economic Thought*. Available at: <http://www.economicthought.net/blog/2014/03/krugmans-alternative-theory-on-trade/> [Accessed 12 Jan. 2020].
- The Economist. (n.d.). The globalisation counter-reaction. [online] Available at: <https://www.economist.com/blogs/buttonwood/2017/06/1914-effect> [Accessed 20 Sep. 2020].
- The Economist. (n.d.). The changing face of global trade. [online] Available at: <https://www.economist.com/blogs/buttonwood/2016/11/great-convergence> [Accessed 20 Sep. 2020].

This week will cover the key concepts and ideas related to international trade. We will look at both old and new trade models and we will examine why the old trade theory fails to explain stylized facts observed today. We will also discuss the relation between trade and inequality between countries. Finally, we will use TTIP as an example.

Week 13: The Institutions and Theory of Taxation

Key concepts/issues: Types of taxation, Fairness of tax system, Application in social benefits of homeownership, Tax incidence: effect of a given tax on income distribution and welfare

Literature for this session:

- Gruber, J. (2010) 'Taxation in the United States and Around the World', Chapter 18 in Gruber, J. Public Finance and Public Policy, 3rd edition, Worth Publisher, pp. 523-556
- Kaplow, L. (2008). The Theory of Taxation and Public Economics. SSRN Electronic Journal.

This week will cover the key concepts and ideas related to the institutions and theory of taxation. We will first examine the fairness of various tax systems. For this, we use an application in homeownership to illustrate the social benefits associated with owning a residential house. Secondly, we will study tax incidence – the effects of a certain tax on the income distribution under different market structures.

Week 14: Reviews and Draft Feedback



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