From a broad perspective, government expenditure is a consequence of the failure of markets to allocate resources in a welfare enhancing manner. In a similar fashion, taxes are often interpreted as a remedy to various market inefficiencies.

Therefore, the natural questions which arise are: When does market failure occur? And if government intervention occurs, is it efficient? What is efficiency and is it the same as welfare? Does equalization imply efficiency? How much income should the government redistribute? What is the amount of taxation that is required to finance government expenditure? How can tax revenue be raised efficiently? What is the effect of taxes on labor and income?

The course will focus on various theories and empirical work that offer explanations to these questions.

In order to demonstrate the relevance of these theories, I will also spend a fair amount of time on topics that are contemporary and quite relevant to Canadian public policy.

There is no required textbook. The course will be taught through journal articles.

**Grading:**
Class presentation 10%
Short paper 20%
Midterm 25%
Final exam 40%
Class participation 5%
A. Expenditure

1. Welfare

Walrasian Equilibrium, Pareto Efficiency, First and Second Theorems of Welfare Economics, Total Surplus, Compensating and Equivalent Variation, Theory of Second Best


3. Income Redistribution

Cash Versus In Kind Transfers, Potential Pareto Improvement Criterion


4. Public Choice

**Democracy, Lindahl Prices, Median Voter Theorem, Logrolling, Special Interests, Arrow Impossibility Theorem, Niskannen Theory of Bureaucracy**


5. Externallities

Negative and Positive Externalities, Pigouvian Taxes, The Coase Theorem


6. Crime


7. Optimal Size of Government


B. Taxation

1. Measuring Deadweight Loss


2. Optimal taxation

3. Income taxation


4. Behavioural Public Economics


5. Tax competition
J.Wilson, 1999, Theories of tax competition, National Tax Journal, 52, 269-304.


6. Tax Incidence, Tax Harmonization, and Estates


7. International taxation

Qing Hong and Michael Smart, 2010, In praise of tax havens: International tax planning and foreign direct investment, European Economic Review 54, 82-95.