

**AFRICAN ECONOMIC RESEARCH CONSORTIUM (AERC)**

**COLLABORATIVE MASTERS PROGRAMME (CMAP) IN  
ECONOMICS FOR ANGLOPHONE AFRICA (EXCEPT  
NIGERIA)**

**JOINT FACILITY FOR ELECTIVES**



**PUBLIC SECTOR ECONOMICS**

**COURSE OUTLINE**

**(Revised: July 2020)**



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## **I. COURSE OBJECTIVES**

The course will expose students to the state-of-the-art in public sector economics theory, while drawing on empirical evidence from developed and developing countries. The aim is to develop analytical tools and methods that will enable students to appreciate issues pertaining to public spending, taxation and financing of government. As much as possible, evidence will be drawn from African and other developing countries. By the end of the course the students should be able to:

- Discuss critically key issues in public economics, informed by recent research; and
- Demonstrate familiarity with a range of public policy issues and relevant analytical and empirical tools.

## **II. COURSE OVERVIEW**

This is a master's level course in Public Sector Economics. The course covers: the role and size of the public sector, including the rationale for public sector interventions such as market and government failure and distributional concerns; public expenditure policy, including assessment of government social protection programs, public projects, public investment management, public-private partnerships, privatization and the role of the private sector in the production and provision of public goods and services. Also addressed are key factors determining a nation's fiscal architecture; public resource mobilization via user charges and taxation, including the economics of taxation, taxation of income, wealth, and consumption, tax incentives, tax compliance and enforcement, and tax reform. It also covers fiscal federalism and issues related to public debt, deficit financing and fiscal federalism.

## **III. COURSE ASSESSMENT**

The course will be assessed by continuous assessment and a final examination. The weighting will be as follows:

Continuous Assessment:	40%
Final Examination:	60%

Continuous assessment shall be made up of at least one in-class test, one take-home assignment/term paper and an individual class presentation on a selected topic in public sector Economics.

## **IV. PRE-REQUISITES**

The students are expected to have successfully completed the core courses (Microeconomics, Macroeconomics, and Quantitative Methods).



## V. RECOMMENDED TEXTBOOKS

Hindriks, J. and G.D. Myles, (2013), *Intermediate Public Finance*, (2<sup>nd</sup> edition), Cambridge: MIT Press.

Gruber, J. (2016), *Public Finance and Public Policy*, 5<sup>th</sup> edition, New York: Worth Publishers.

Atkinson, A. and J. E. Stiglitz (2015), *Lectures on Public Economics*, Updated Edition New York: Princeton University Press

Leach, J. (2004), *A Course in Public Economics*, Cambridge: Cambridge University Press.

Howard, M. M., A. La Foucade & E. Scott (2010) *Public Sector Economics for Developing Countries*, 2<sup>nd</sup> Edition, Barbados: University of the West Indies Press

Gaspar, V. Gupta, S. Mula-Granados. Ed. (2017). *Fiscal Politics*. Washington D.C: IMF.

### Supplementary readings

Rosen, H. S. and T. Gayer, (2014), *Public Finance*, Boston: McGraw Hill, 10<sup>th</sup> edition.

Kaplow, L. (2008), *The Theory of Taxation and Public Economics*, Princeton University Press

Hillman, A. L. (2009), *Public Finance and Public Policy – Responsibilities and Limitations of Government*, Cambridge: Cambridge University Press.

Cornes, R. and T. Sandler (1996), *The Theory of Externalities, Public Goods, and Club Goods*, Cambridge: Cambridge University Press.

### Online Resources and Links

1. <https://www.sciencedirect.com/handbook/handbook-of-public-economics/volumes>
2. [www.jstor.org](http://www.jstor.org)
3. [www.ebsco.org](http://www.ebsco.org) (EBSCO host articles)
4. [http://aercafrica.org/index.php/publications/view\\_category/20-senior-seminar-policy-reports?layout=table](http://aercafrica.org/index.php/publications/view_category/20-senior-seminar-policy-reports?layout=table)
5. <http://www.journals.elsevier.com/journal-of-public-economics/>
6. [www.globethics.net/library](http://www.globethics.net/library)
7. [www.digitallibrary.edu.pk/oaebbooks.html](http://www.digitallibrary.edu.pk/oaebbooks.html)
8. <https://www.wdl.org/>
9. [www.elibrary.bigchalk.com/](http://www.elibrary.bigchalk.com/)
10. [www.webcrawler.com](http://www.webcrawler.com)



## VI. DETAILED COURSE OUTLINE

### FIRST SEMESTER

#### PUBLIC SECTOR ECONOMICS I (60 HOURS)

##### 1. INTRODUCTION (2 HOURS)

Definition; nature and scope of Public Sector Economics; methodology of Public Sector Economics; and structure of the Public Sector.

##### **Basic Readings:**

Gruber Chapters 1, 2, and 3 (including appendix)

Rosen & Gayer chapters 1 & 3

Hindriks & Myles chapter 1

##### 2. FOUNDATIONS OF PUBLIC ECONOMICS (8 HOURS)

Pareto optimality and efficiency of competitive markets; efficiency conditions in a two-period intertemporal model; consumer and producer surplus; and theory of second best.

##### **Basic Readings:**

Leach Chapters 1, 3, 4 & 5.

Atkinson and Stiglitz, Chapter 1

Hindriks & Myles chapter 2

##### **Other Readings:**

Mishan E. J. (1960), "Survey of Welfare Economics: 1939 – 1959". *Economic Journal* (70): 197 - 265.

Lipsey, R. G. and K. Lancaster (1956), "The General Theory of Second Best". *Review of Economic Studies* 24: 11 - 32.

Bator F. (1957), "The Simple Analytics of Welfare Maximization". *American Economic Review* 47.

McKee, M. and E. G. West (1981), "The Theory of Second Best: A solution in search of a Problem", *Economic Inquiry*, 19(3).

Slesnick, D.T. (1998), "Empirical Approaches to the Measurement of Welfare". *Journal of Economic Literature*, XXXVI.



### 3. MARKET FAILURE

(2 HOURS)

Sources of market failure: public goods; externalities; market imperfections; missing markets; increasing returns to scale; risk and uncertainty; income distribution; information asymmetry; tax distortions; and market inefficiency.

#### Basic Readings:

Leach chapter 1 (1.2.1 - 1.2.4).

Atkinson and Stiglitz, Chapter 1

Cornes and Sandler, Chapter 1

Howard, La Foucade & Scott, Chapter 1

#### Other Readings:

Stiglitz, Joseph E., and Andrew Weiss. "Credit Rationing in Markets with Imperfect Information." *The American Economic Review*, vol. 71, no. 3, 1981, pp. 393–410.

Akerlof, George A. "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." *The Quarterly Journal of Economics*, vol. 84, no. 3, 1970, pp. 488–500

Bruce Greenwald and J. E. Stiglitz, "Externalities in Economies with Imperfect Information and Incomplete Markets," *Quarterly Journal of Economics*, 1986, Vol. 101, No. 2 (May), pp. 229-264.

Bator F. (1958), "The Anatomy of Market Failure". *Quarterly Journal of Economics*, 72.

Timothy Besley, How Do Market Failures Justify Interventions in Rural Credit Markets? *The World Bank Research Observer*, Volume 9, Issue 1, January 1994, Pages 27–47.

Datta-Chaudhuri, Mrinal. 1990. "Market Failure and Government Failure." *Journal of Economic Perspectives*, 4 (3): 25-39.

Black, P. A. and B. E. Dollery, (1989), "Market Failure and Government failure", *Leading Issues in South African MicroEconomy*. Southern Book Ltd.

Wolf, Jnr. C. (1987), "Market and Non-Market Failures: Comparison and Assessment", *Journal of Public Policy* 7 (1).



#### 4. GOVERNMENT FAILURE

(6 HOURS)

Sources of government failure: Disjunction between public costs and revenues; high levels of taxation; imperfect control of government agencies and procurement processes; on-governmental institutions (channels for aid due to government failure; rent-seeking: corruption and economic crime, embezzlement, regulatory capture, preference-revelation problems, and crime, and failures resulting from a principal-agent problem etc). Measures to correct government failure: public sector reform (reducing government size, rationalization of government functions, privatization); and non-governmental institutions.

##### Basic Readings:

Cullis and Jones, Chapter 5 & 14

Howard, M. M., A. La Foucade & Scott, Chapter 3

Hindriks and Myles, Chapter 5

Public Procurement Acts for various Countries (For example, Kenya Public Procurement and Public Asset Disposal Act, 2006, Uganda Public Procurement and Disposal of Public Assets Act, 2005)

##### Selected Readings:

Wawire, N.H. W. (2020). Constraints to Enhanced Revenue Mobilization and Spending Quality in Kenya. *CGD Policy Paper 163*, Washington DC: Center for Global Development. [www.cgdev.org](http://www.cgdev.org)

Haque M. E., M. Emranul and R. Kneller (2015) "Why Does Public Investment Fail To Raise Economic Growth? The Role of Corruption", *The Manchester School* 83(6): 623–651.

Mbaku, J. (2008) "Corruption and Clean-Ups in Africa: Lessons from the Public Choice Theory", *Journal of Asian and African Studies* (43): 427.

Afeikhena, J. (2008), 'Privatization and Enterprise Performance in Nigeria: Case Study of Some Privatized Enterprises, *AERC Research Paper No. 175*, February

Niskanen, William A., (1994), *BUREAUCRACY AND PUBLIC ECONOMICS*, Edward Elgar Publishing

James J. (1995) *The Political Economy of Bureaucracy: A Public Choice Perspective*. In: *The State, Technology and Industrialization in Africa*. Palgrave Macmillan, London

Black, P. A. and Dollery, B. E (1989), "Market Failure and Government failure", *Leading Issues in South African MicroEconomy*, Southern Book Ltd.

Krueger, A. O. (1990), "Government Failure in Development" *The Journal of Economic Perspectives* (4): 3.

Datta-Chaudhuri, M. (1990). "Market failure and Government Failure", *The Journal of Economic Perspective* 4(3): 25-40

Oliver, C. White, C and A. Bhatia, (1998), *Privatization in Africa*. Directions in Development series, World Bank, Washington, D.C



## 5. EXTERNALITIES

(8 HOURS)

Definitions; types; sources; consequences; and corrective mechanisms.

### Basic Readings:

- Gruber chapters 5 & 6
- Leach chapters 6 - 8
- Cornes and Sandler, chapters 3 & 4
- Hindriks & Myles chapter 7

### Other Readings:

Daron Acemoglu and Joshua Angrist, "How Large Are Human-Capital Externalities? Evidence from Compulsory Schooling Laws," *NBER Macroeconomics Annual* 15 (2000): 9-59.

Antonio Ciccone, Giovanni Peri, Identifying Human-Capital Externalities: Theory with Applications, *The Review of Economic Studies*, Volume 73, Issue 2, April 2006, Pages 381–412,

White, C. (2019). Measuring social and externality benefits of influenza vaccination. *Journal of Human Resources*, 1118-9893R2.

Leonard Wantchekon, Marko Klašnja, Natalija Novta, Education and Human Capital Externalities: Evidence from Colonial Benin, *the Quarterly Journal of Economics*, Volume 130, Issue 2, May 2015, Pages 703–757

Miguel, E. and Kremer, M. (2004), Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities. *Econometrica*, 72: 159-217

Parry, Ian, W. H., Margaret Walls, and Winston Harrington. 2007. "Automobile Externalities and Policies." *Journal of Economic Literature*, 45 (2): 373-399.

Stacy Sneeringer, Does Animal Feeding Operation Pollution Hurt Public Health? A National Longitudinal Study of Health Externalities Identified by Geographic Shifts in Livestock Production, *American Journal of Agricultural Economics*, Volume 91, Issue 1, February 2009, Pages 124–137,

Picasso E, Bonoli E. M., Harris. S. and F. Tanco (2016), "Measuring the externalities of urban traffic improvement programs" *Habitat International* 55: 10–16.

Caldari, K. & M. Fabio (2011), "Pigouvian versus Marshallian tax: Market Failure, Public Intervention and the Problem of Externalities" *The European Journal of the History of Economic Thought* 18(5): 715-732.

Biglan A. (2009), "The Role of Advocacy Organizations in Reducing Negative Externalities" *Journal of Organizational Behavior Management* 3-4: 2015-230.

Buchanan, J. M., and W. C. Stubblebine (1962), "An Externality". *Economica* 29: 371 - 84.



Coase, R. H. (1960), "The Problem of Social Cost". *Journal of Law and Economics* 3: 1 - 44.  
Buchanan, J. M. (1965), "Joint Supply, Externality and Optimality" *Economica* 33: 404 - 15.

Oates, W. E. (1983), "The Regulation of Externalities: Efficient Behaviour by Sources and Victims", *Public Finance* 38 (3): 362 - 3751.

## 6. PUBLIC GOODS

(8 HOURS)

Definitions; pure public goods; merits goods; club goods; optimal provision of public goods; and alternative mechanism for provision of public goods (e.g. Lindhal mechanism, Clarke & Grooves, etc).

### Basic Reading

Gruber chapter 7

Leach chapters 10 - 12

Cornes & Sandler chapters 1, 2, 6, 7.

Hindriks & Myles chapters 5 & 6.

Howard, M. M., A. La Foucade & Scott, Chapter 2

### Other Readings:

Stiglitz J.E. (1977) The Theory of Local Public Goods. In: Feldstein M.S., Inman R.P. (eds) *The Economics of Public*

Oakland, W. H. (1987). Theory of public goods. In *Handbook of public economics*, Vol. 2, pp. 485-535.

Bernheim, D and A. Rangel, (2009). "Beyond Revealed Preference: Choice-Theoretic Foundations for Behavioral Welfare Economics," *Quarterly Journal of Economics* 124(1): 51-104.

Blomquist, Sören, Vidar Christiansen, and Luca Micheletto. 2010. "Public Provision of Private Goods and Nondistortionary Marginal Tax Rates." *American Economic Journal: Economic Policy* 2(2): 1–27.

Evans, Mary F. and Vossler, Christian A. and Flores, Nicholas E., (2009), "Hybrid allocation mechanisms for publicly provided goods," *Journal of Public Economics* 93(12), pages 311-325, February 2009.

Kreiner, V. and N. Verdellin, (2010). "Optimal Provision of Public Goods: A Synthesis." *Scandinavian Journal of Economics*.

Chetty, Raj, Emmanuel Saez, and Laszlo Sandor. 2014. "What Policies Increase Prosocial Behaviour? An Experiment with Referees at the Journal of Public Economics." *Journal of Economic Perspectives*, 28 (3): 169-88.

Isaac, R. M., & Walker, J. M. (1988). Group size effects in public goods provision: The voluntary contributions mechanism. *The Quarterly Journal of Economics*, 103(1), 179-199.





Gisselquist, R. M., Leiderer, S., & Nino-Zarazua, M. (2016). Ethnic heterogeneity and public goods provision in Zambia: Evidence of a subnational “diversity dividend”. *World Development*, 78, 308-323.

## **7. PUBLIC CHOICE (10 HOURS)**

Unanimous Consent on Public Goods Levels; Mechanisms for Aggregating Individual Preferences; Representative Democracy; the Foundations of Government Failure.

### **Basic Readings:**

Gruber, chapter 9

Rosen & Gayer, Chapter 6

Hindriks & Myles chapter 11

Howard, M. M., A. La Foucade & Scott, Chapter 4

### **Other Readings:**

Rubin, Irene S, (2013), *The Politics of Public Budgeting: Getting and Spending, Borrowing and Balancing*, 7th Edition, Thousand Oaks, CA: CQ Press

Naroff, Joel and Ron Scherer, (2014), *Big Picture Economics: How to Navigate the New Global Economy*, Hoboken, NJ: Wiley

Besley, T. and S. Coate (1997), "An Economic Model of Representative Democracy," QJE pp 85-114.

Osborne, M and A. Slivinski (1996) .A Model of Political Competition with Citizen-Candidates, QJE pp 65-96.

Lizzeri, Alessandro and Nicola Persico (2001), "The Provision of Public Goods under Alternative Electoral Incentives," *American Economic Review*, (2001), 225-239.

Diermeier, D., H. Eraslan and A. Merlo (2003). A Structural Model of Government Formation. *Econometrica* 71, pp 27-70.

Aragones, E., T. Palfrey and A. Postlewaite, "Reputation and Rhetoric in Elections," *Journal of the European Economic Association*, 5: 846-884.

Hibbs, D. and Piculescu, V. (2010), "Tax Toleration and Tax Compliance: How Government Affects the Propensity of Firms to Enter the Unofficial Economy: *American Journal of Political Science* 54(1):18-33.

Gerber, A., D. Green, and C. Larimer, (2008), "Social Pressure and Voter Turnout: Evidence from a Large-Scale Field Experiment" *American Political Science Review* (102): 33-48.

Besley, T. and A. Case, (2003), "Political Institutions and Policy Choice: Evidence from the US". *Journal of Economic Literature* 41(2), March.



## 8. PUBLIC EXPENDITURE

(8 HOURS)

Social Welfare function; Measuring Inequality; Social protection Programmes: Social Insurance and Security; Size and composition of public expenditure; Theories of public expenditure growth; Public Expenditure Policy in Africa.

### Basic Readings:

Gruber chapters 10 & 12

Atkinson and Stiglitz, Chapters 10, 16 & 17

Howard, M. M., A. La Foucade & Scott, Chapter 6

Hindriks & Myles chapter 4

### Other Readings

Sen, A. (2018). *Collective choice and social welfare*. Harvard University Press.

Aregbeyen, O.O., and U.F. Akpan. (2013). “Long-term Determinants of Government Expenditure: A Disaggregated Analysis for Nigeria.” *Journal of Studies in Social Sciences* 5, no. 1: 31-87.

Cordes, T., T. Kinda, P. Muthoora, and A. Weber. “Expenditure Rules: Effective Tools for Sound Fiscal Policy?” Chapter 12. Gasper, V., S. Gupta, and C. Mulas-Granados, Eds. *Fiscal Politics*. Washington, DC: IMF, 2017.

Mauro, P. “Corruption and Composition of Government Expenditure.” *Journal of Public Economics*, 69 (1998): 263-279.

Rubin, Irene S, (2013), *The Politics of Public Budgeting: Getting and Spending, Borrowing and Balancing*, 7th Edition, Thousand Oaks, CA: CQ Press

Oyieke O. S. (2011), “Government Capital Spending and Financing and its Impact on Private Investment in Kenya: 1964-2006” *AERC Research Paper 236*, African Economic Research Consortium, Nairobi

Samuelson, P. A. (1954), “The Pure Theory of Public Expenditure” *The Review of Economics and Statistics* 36(4): 387-389.

Samuelson, P. A. (1958), “Aspects of Public Expenditure Theories”, *The Review of Economics and Statistics* 40(4): 332-338.

Battaglini, M. and S. Coate, (2008), “A Dynamic Theory of Public Spending, Taxation, and Debt”, *American Economic Review* 98 (1): 201–236.

Deaton, A. (1980). Measurement of welfare: Theory and practical guidelines (No. LSM7, p. 1). The World Bank.

Slesnick, D. (1998). Empirical Approaches to the Measurement of Welfare. *Journal of Economic Literature*, 36(4), 2108-2165.



Cowell, F. A. (2000). Measurement of inequality. *Handbook of income distribution, 1*, 87-166.

Sen, A. K. (1992). *Inequality re-examined*. Oxford University Press.

Atkinson, A. B. (2015). *Inequality: What can be done?* Harvard University Press.

Niño-Zarazúa, M., Roope, L. and Tarp, F. (2017), Global Inequality: Relatively Lower, Absolutely Higher. *Review of Income and Wealth*, 63: 661-684.

Barr, N. (2020). *Economics of the welfare state*. Oxford University Press

Niño-Zarazúa, M., Barrientos, A., Hickey, S., & Hulme, D. (2012). Social protection in Sub-Saharan Africa: Getting the politics right. *World development*, 40(1), 163-176.

Fiszbein, A., Kanbur, R., & Yemtsov, R. (2014). Social protection and poverty reduction: Global patterns and some targets. *World Development*, 61, 167-177.

Abhijit V. Banerjee, Rema Hanna, Gabriel E. Kreindler, Benjamin A. Olken, Debunking the Stereotype of the Lazy Welfare Recipient: Evidence from Cash Transfer Programs, *The World Bank Research Observer*, Volume 32, Issue 2, August 2017, Pages 155–184

Njeru, J. (2004), 'The Impact of Foreign Aid on Public Expenditure: The Case of Kenya, *AERC Research Paper* No. 135, March;

## **9. PUBLIC INVESTMENT MANAGEMENT (8 HOURS)**

Evaluation of Public Projects/Programmes (benefit analysis; social cost-benefit analysis; cost effectiveness; shadow prices and market prices; discount rate for social cost-benefit analysis); Institutions for Public Investment Management - (planning, allocation and implementation). Planning: fiscal rules, national sectoral planning, central/local planning, management of PPPs. Allocation and Budgeting: - Definitions; multiple purposes of budgeting; types, and techniques of budgeting; budget policy, formulation and execution; planning and budgeting; public revenue and expenditure forecasting; Implementation (protection of investment, transparency of execution and monitoring of assets; Incentives in the Public Sector.

### **Basic Readings:**

Gruber chapter 4, 8

Howard, M. M., A. La Foucade & Scott, Chapter 9, 10

Hindriks and Myles, Chapter 25

### **Other Readings:**

Boardman, A. E., Greenberg, D. H., Vining, A. R., & Weimer, D. L. (2017). *Cost-benefit analysis: concepts and practice*. Cambridge University Press.



Ho, A. T. K. (2018). From performance budgeting to performance budget management: theory and practice. *Public Administration Review*, 78(5), 748-758

Oguso, A., Mweya, F. Wawire, N. H., and Samanta, P. (2017). Constraints to Fiscal Consolidation Efforts in Kenya: Analysis of the Persistent Growth in Public Recurrent Costs *Journal of Economics, Management and Trade* 19(2): 1-20

Nyborg K. (2014), "Project evaluation with democratic decision-making: What does cost-benefit analysis really measure?" *Ecological Economics* 106: 124-131.

Wawire, N.H. W. (2020). Constraints to Enhanced Revenue Mobilization and Spending Quality in Kenya. *CGD Policy Paper 163*, Washington DC: Center for Global Development. [www.cgdev.org](http://www.cgdev.org)

Li Chuan-Zhong and Löfgren Karl-Gustaf (2010), "Dynamic cost-benefit analysis of large projects: The role of capital cost", *Economics Letters* 109(2): 128-130.

Boadway, R. (2006), "Principles of Cost Benefit Analysis" *Public Policy Review*, 2(1).

Harrison A. J. and D. S. Quarmby, *The Value of Time in Cost-Benefit Analysis*, ed. Richard Layard, Chapter 6, pp 173-208.

Anand R., Tuan L. M., Kai K., Jay-Hyung K., and F. Jonas (2014), *The Power of Public Investment Management: Transforming Resources into Assets for Growth*, Report 91158, World Bank Group, Washington DC. <http://documents.banquemondiale.org/curated/fr/2014/09/20268592/power-public-investment-management-transforming-resources-assets-growth>

IMF (2015), "Making Public Investment More Efficient" *Staff Report*, June 2015, Washington, D.C./ <http://www.imf.org/external/np/pp/eng/2015/061115.pdf>

Boadway, R. (2006), "Principles of Cost-Benefit Analysis", *Public Policy Review* 2(1).

Persky J. (2001), "Cost-Benefit Analysis and the Classical Creed", *Journal of Economic Perspectives* 15(4): 199-208.



## **SECOND SEMESTER**

### **PUBLIC SECTOR ECONOMICS II (60 HOURS)**

#### **1. INTRODUCTION (4 HOURS)**

Definitions, History and rationale for taxation. Canons of a good tax system; Objectives of tax policies, types of taxes; distinctions among a tax and fees, fines, user charges, royalties; and penalties. Vertical and horizontal equity

##### **Basic Readings:**

Gruber, chapter 18

Howard, M. M., A. La Foucade & Scott, Chapter 13

##### **Other Readings**

Mankiw, N.G., Weinzierl, M. and D. Yagan (2009): Optimal Taxation in Theory and Practice, *Journal of Economic Perspectives* 23(4): 147-174

Mirrlees, J.R. (1997): Information and Incentives: The Economics of Carrots and Sticks, *Economic Journal* 107:1311-1329. (Nobel Prize Lecture)

#### **2. THEORY OF TAXATION (10 HOURS)**

Incentive effects of taxation (on savings, investment, labour supply and risk taking); and tax incidence analysis.

##### **Basic Reading:**

Gruber chapters 18, 19, 21, 22, 23& 24

Atkinson and Stiglitz, Chapters 2 - 4, 6, 7, & 12-14

Howard, M. M., A. La Foucade & Scott, Chapter 14

##### **Other Readings**

Esther Duflo, William Gale, Jeffrey Liebman, Peter Orszag, Emmanuel Saez, Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block, *The Quarterly Journal of Economics*, Volume 121, Issue 4, November 2006, Pages 1311–1346

Howell, A. (2016), "Firm R&D, innovation and easing financial constraints in China: Does corporate tax reform matter?" *Research Policy* 45, 1996-2007



Sari, N., M. S. Dewi & Y. Sun (2015), “Indonesia: The effect of Tax Holiday on Economic Growth Related to Foreign Investment”, *Procedia - Social and Behavioral Sciences* 211 (2015) 1008 – 1015

Van Parys, S & S. James (2010), “The effectiveness of tax incentives in attracting Investment: panel data evidence from the CFA Franc zone” *International Tax Public Finance* (2010) 17: 400–429, DOI 10.1007/s10797-010-9140-1

Bernard Salanie (2002) *The Economics of Taxation*, The MIT Press, Cambridge, Massachusetts

Gale, William G. and Joel B. Slemrod (2001), “Policy Watch: Death Watch for the Death Tax?” *Journal of Economic Perspectives* 15(1): 205-218.

Mankiw, N.G., Weinzierl, M. and D. Yagan (2009): Optimal Taxation in Theory and Practice, *Journal of Economic Perspectives* 23(4): 147-174.

Gruber, Jonathan and Emmanuel Saez (2002): “The Elasticity of Taxable Income: Evidence and Implications,” *Journal of Public Economics* 84: 1-32.

Chetty, R., Looney, A. and K. Kroft (2009), “Salience and Taxation: Theory and Evidence, *American Economic Review* 99(4): 1145-1177

Sallee, J.M. (2011), “The surprising incidence of tax credits for the Toyota Prius”, *American Economic Journal* 3: 189-219.

Feldstein, M. (2006), “The Effects of Taxes on Efficiency and Growth,” *Tax Notes*, (available at <http://www.nber.org/feldstein/taxanalysis.pdf>)

### 3. **THEORY OF OPTIMAL TAXATION** **(6 HOURS)**

Optimal commodity taxation and optimal income taxation

#### **Basic Readings:**

Gruber, Chapter 20 (Including Appendix)

Howard, M. M., A. La Foucade & Scott, Chapter 21

Atkinson and Stiglitz, Chapters 12-14

Hindriks & Myles chapters 15 & 16

Mankiw, N. Gregory, Matthew Weinzierl and Danny Yagan (2009), “Optimal Taxation in Theory and Practice,” *Journal of Economic Perspectives* 23(4): 147-74.

Gordon, R. and W. Li (2009), “Tax Structures in Developing Countries: Many puzzles and a possible explanation”, *Journal of Public Economics* (93): 855-866.



Simula, L. and A. Trannoy (2010), "Optimal income tax under the threat of migration by top-income earners", *Journal of Public Economics* (94):163-173.

Piketty, Thomas, Emmanuel Saez, and Stefanie Stantcheva. 2014. "Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities." *American Economic Journal: Economic Policy*, 6 (1): 230-71.

#### 4. TAX EVASION AND AVOIDANCE (6 HOURS)

Tax avoidance, models of tax evasion, underground economy, tax amnesty, evidence of tax evasion from Africa

##### Basic Readings

Atkinson and Stiglitz

Hindriks & Myles, Chapter 17

Howard, M. M., A. La Foucade & Scott, Chapter, 20

##### Other Readings

Slemrod, J., & Yitzhaki, S. (2002). Tax avoidance, evasion, and administration. In *Handbook of public economics* (Vol. 3, pp. 1423-1470). Elsevier.

Slemrod, J. (2007). Cheating ourselves: The economics of tax evasion. *Journal of Economic perspectives*, 21(1), 25-48.

Desai, M. A., & Dharmapala, D. (2009). Corporate tax avoidance and firm value. *The review of Economics and Statistics*, 91(3), 537-546.

Bernard Salanie (2002) *The Economics of Taxation*, The MIT Press Cambridge, Massachusetts, London, England

Anan, B., W. Bekoe & E. Nketiah-Amponsah (2013) "Determinants of Tax Evasion in Ghana: 1970-2010" *International Journal of Economic Sciences and Applied Research* 6 (3): 97-121.

Bekoe, W. (2012) "Tax Evasion and Economic Growth in Selected African countries, 1975-2010" *West African Journal of Monetary and Economic Integration* 12, 2012.

Chetty, R. (2009). "Is the Taxable Income Elasticity Sufficient to Calculate Deadweight Loss? The Implications of Evasion and Avoidance." *American Economic Journal: Economic Policy* 1(2): 31-52.





Eric J., R. Bartelsman, M.W.J. Beetsma (2003 “Why pay more? Corporate tax avoidance through transfer pricing in OECD countries”, *Journal of Public Economics* 87, 2225–2252

Broadway, R., and M. Sato. (2000), “The optimality of Punishing only the Innocent: The Case of Tax Evasion,” *International Tax and Public Finance* 641 - 64.

#### 5. TAX POLICY, STRUCTURE AND ADMINISTRATION (8 HOURS)

Objectives of tax policy; tax policy in developing countries; taxation and development; tax structure; tax administration; tax base, elasticity & buoyancy, and tax reforms in developing countries. Constraints to revenue mobilization in Africa. The Role of ICT and Mobile Money Transactions in strengthening tax collection and administration Africa experience.

##### Basic Readings:

Gruber chapter 25

Howard, M. M., A. La Foucade & Scott, Chapter 13, 17 and part of 20

Rosen and Baye Chapter 21

##### Other Readings

Knack, S. (2009). Sovereign rents and quality of tax policy and administration. *Journal of Comparative Economics*, 37(3), 359-371.

Tanzi, M. V. (2000). *Tax policy for emerging markets-developing countries*. International Monetary Fund.

Keen, M., & Mansour, M. (2010). Revenue Mobilisation in Sub-Saharan Africa: Challenges from Globalisation II–Corporate Taxation. *Development Policy Review*, 28(5), 573-596.

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Wawire, N.H. W. (2020). Constraints to Enhanced Revenue Mobilization and Spending Quality in Kenya. *CGD Policy Paper 163*, Washington DC: Center for Global Development. [www.cgdev.org](http://www.cgdev.org)

Egwaikhide, F. O. (2019). Nigeria’s Low Tax Collection and Poor Quality of Government Expenditure: Political and Administrative Impediments to Improvement. *CGD Policy Paper 162*, Washington DC: Center for Global Development. [www.cgdev.org](http://www.cgdev.org)





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Wawire, N.H.W. (2017). Determinants of Value Added Tax Revenue in Kenya. *Journal of Economics Library* 4, no. 3 (2017): 322-344. Available at [www.kspjournals.org](http://www.kspjournals.org).

Ndung'u, N. (2017). Digitization in Kenya: Revolutionizing Tax Design and Revenue Administration. *Digital Revolution in Public Finance*. Gupta, S, M. Keen, A. Shah, G. Verdier, eds. Washington, DC: International Monetary Fund.

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Andoh, F. K. (2017), "Taxable capacity and effort of Ghana's value-added tax", *African Review of Economics and Finance*, ISSN 2042-1478, Volume 9, Issue 2

Pantamee, A. A., & M. B., Mansor (2017), "A Modernize Tax Administration Model for Revenue Generation", *International Journal of Economics and Financial Issues*, 2016, 6(S7) 192-196

Asafu-Adjaye, J & T. Feger, (2014), "Tax effort performance in sub-Saharan Africa and the role of colonialism", *Economic Modelling* 38, 163–174

Ghura, D. (2002). "Tax Revenue in Sub-Saharan Africa: Effects of Economic Policies and Corruption." Chapter 14. Abed, G.T., and S. Gupta, eds. *Governance, Corruption and Economic Performance*. Washington, DC: IMF, 2002.

Gordon, R. and W. Li (2009): Tax Structures in Developing Countries: Many puzzles and a possible explanation, *Journal of Public Economics* 93: 855-866.

Omondi, V. Wawire, N. H. W. Manyasa, O. & Thuku, G. (2014). Effects of Tax Reforms on Buoyancy and Elasticity of the Tax System in Kenya: 1963–2010. *International Journal of Economics and Finance* 6(10): 97 – 111.



Wawire N. H. W. (2000) "Revenue productivity Implications of Kenya's Tax System" in Kwesi Kwaa Prah and A. G. Ahmed (Eds.) *Africa in Transformation: Political and Economic Issues*. Vol.1 Chapter 6. Addis Ababa: OSSREA pp. 99 - 106

Wawire N.H.W. (2003) "Trends in Kenya's Tax Ratios and Tax Effort Indices, and Their Implications for Future Tax Reforms". *Egerton Journal*. Vol. IV, Numbers 2&3. Njoro: Egerton University Press. pp. 256 - 279.

Tabi A. J, Atabongawung J. N. and A. T. Afeanyi. (2006), "The Distribution of Expenditure Tax Burden before and After-Tax Reform: The Case of Cameroon, *AERC Research Paper* No. 161 November

Kinyanjui, M. M. and Moyi, E.D. (2003), "Tax Reforms and Revenue Mobilization in Kenya, *AERC Research Paper* No.131, May

## 6. FISCAL FEDERALISM (12 HOURS)

Theory of Fiscal Federalism (Tiebout Model); Principles of intergovernmental relations; assignment of functions: expenditure and tax assignments; tax competition; revenue sharing mechanisms/ intergovernmental grants and transfers; fiscal federalism and the African experience. Local Government Revenue Collection systems: the African Experience, Fiscal Implication of Decentralization by Devolution

### Basic Readings:

Gruber chapter 10

Rosen and Gayer, Chapter 22

Hindriks & Myles chapter 19, 20

### Other Readings

Oates, W. E. (1999). An essay on fiscal federalism. *Journal of economic literature*, 37(3), 1120-1149.

Vo, D. H. (2010). The economics of fiscal decentralization. *Journal of Economic Surveys*, 24(4), 657-679.

Bird, R. M., & Vaillancourt, F. (Eds.). (2008). *Fiscal decentralization in developing countries*. Cambridge University Press.

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Cremer, J. and T. Palfey (2000), "Federal Mandates by Popular Demand", *Journal of Political Economy* 108: 905-927.

Fisher, Ronald and Leslie E. Papke (2000), "Local Government Responses to Education Grants", *National Tax Journal* 53(1): 153-168.

Gramlich, Edward M. (1993), "A Policymaker's Guide to Fiscal Decentralization", *National Tax Journal* 46(2): 229-235.

Lockwood, B. (2006), "The political economy of decentralization", in *Handbook of Fiscal Federalism*, Ed. By E. Ahmad and G. Brosio, Edwar Elgar, 33-60.

Janeba, E. and G. Schjelderup (2009), "The Welfare Effects of Tax Competition Reconsidered: Politicians and Political Institutions", *Economic Journal* 119: 1143-1161

Kempf, H. and G. Rota-Graziosi (2010), "Endogenizing leadership in tax competition, *Journal of Public Economics* 94 (9-10): 768-776

Oates W. E. (1972), *Fiscal Federalism*. New York: Harcourt Bruce,

Ekpo, A.H and J.E. Ndebbio, (1994), "Local Government Fiscal Operations in an Oil-Export Economy: Nigeria, 1980-1992" *African Journal of Economic Policy* 1(2): 1-18.

Ekpo, A.H (1994), "Fiscal Federalism: Nigeria's Post Independence Experience, 1960-1990" *World Development* 22(8): 1129-1146.

**7. INTERNATIONAL ISSUES IN TAXATION (8 HOURS)**

International issues in taxation – concepts and principles; Tax harmonisation; Tax competition, fiscal externalities and coordination failure; Implications of trade costs for taxes and investment flows. Transfer Pricing Manipulation, Tax havens, illicit financial flows. Tax treaties, and regulations on Transfer Pricing,

**Readings:**

Howard, M. M., A. La Foucade & Scott, Chapter 19

Hindriks and Myles, Chapter 21

**Other Readings**

Devereux, M. P., Griffith, R., & Klemm, A. (2002). Corporate income tax reforms and international tax competition. *Economic policy*, 17(35), 449-495.

Huizinga, H., & Laeven, L. (2008). International profit shifting within multinationals: A multi-country perspective. *Journal of Public Economics*, 92(5-6), 1164-1182.

Palan, R., Murphy, R., & Chavagneux, C. (2013). *Tax havens: How globalization really works*. Cornell University Press.

Joel Cooper, Randall Fox, Jan Loerick, and Komal Mohindra (2016) *Transfer Pricing and Developing Economies A Handbook for Policy Makers and Practitioners*.

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Perroni, C and K Scharf, (2001) "Tiebout with Politics: Capital Tax Competition and Constitutional Choices", *The Review of Economic Studies* 68:1, 133-154.

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Dharmapala, D. C. Foley, and K. Forbes (2011), "Watch What I Do, Not What I Say: The Unintended Consequences of the Homeland Investment Act," *Journal of Finance*, American Finance Association 66(3): 753-787, 06.

**8. PUBLIC DEBT****(6 HOURS)**

Fiscal deficits; domestic and external debt: causes, management, strategies, financing and sustainability. Overview of external debt in Africa and debt relief initiatives.

**Basic Readings:**

Rosen and Gayer, Chapter 20

Howard, M. M., A. La Foucade & Scott, Chapter 10

Hindriks and Myles, Chapter 4

**Other Readings**

Reinhart, C. M., Reinhart, V. R., & Rogoff, K. S. (2012). Public debt overhangs: advanced-economy episodes since 1800. *Journal of Economic Perspectives*, 26(3), 69-86.

Reinhart, C. M., & Rogoff, K. S. (2010). Growth in a Time of Debt. *American economic review*, 100(2), 573-78.

Herndon, T., Ash, M., & Pollin, R. (2014). Does high public debt consistently stifle economic growth? A critique of Reinhart and Rogoff. *Cambridge journal of economics*, 38(2), 257-279.

Panizza, U., & Presbitero, A. F. (2014). Public debt and economic growth: is there a causal effect? *Journal of Macroeconomics*, 41, 21-41.

Hauner, D. (2009). Public debt and financial development. *Journal of development economics*, 88(1), 171-183.

Bekoe, W, R. Ayisi, Osei-Owusu, J. "Debt Sustainability of Emerging Economies in Sub-Sahara Africa" Forthcoming, *Journal of Economic Studies* (2020)

Johansson, Pernilla. "Debt relief, investment and growth." *World Development* 38, no. 9 (2010): 1204-1216.

Ndikumana, L. (2004). Additionality of debt relief and debt forgiveness, and implications for future volumes of official assistance. *International Review of Economics & Finance*, 13(3), 325-340.

Hussain, M. N., & Gunter, B. G. (2005). External shocks and the HIPC Initiative: Impacts on growth and poverty in Africa. *African Development Review*, 17(3), 461-492.

Thomas, M. R., & Giugale, M. M. (2015). African debt and debt relief. *The Oxford handbook of Africa and economics*, 2, 186-203.



Alfaro, L. & F. Kanczuk (2019) “Undisclosed Debt Sustainability” *NBER Working Paper* 20-043

Du, W., C. E. Pflueger & J. Schreger (2019) “Sovereign Debt Portfolios, Bond Risks, and the Credibility of Monetary Policy, NBER Working Paper No. 22592

Alfaro, L. & F. Kanczuk (2017) “Debt Redemption and Reserve Accumulation” Working Paper 13-074

Oguso, A., F.M. Mwea, N.H.W. Wawire, and P. Samanta. (2018). “Analysis of Budget Imbalance Dynamics in Kenya.” *Journal of Economics and Public Finance* 4, no. 4 (2018): 352-377. [www.scholink.org/ojs/index.php/jepf](http://www.scholink.org/ojs/index.php/jepf).

Gupta, S. Jalles, J. T. C. Mulas-Granados, M. Schena. (2017). “Governments and Promised Fiscal Consolidations: Do They Mean What They Say?” Chapter 2. Gasper, V., S. Gupta, and C. Mulas-Granados, eds. *Fiscal Politics*. Washington, DC: IMF.

Karlan, D., S. Mullainathan and B.N. Roth (2017), “Debt Traps? Market Vendors and Moneylender Debt in India and the Philippines” NBER Working Paper Series, No. 24272

Hébert, B. (2016) “The Cost of sovereign Default: Evidence from Argentina NBER Working Papers 22270

Daud, S. N. M., & Podivinsky, J. M. (2015). Federal government debt and economic growth: Evidence from Malaysia. *Progress in Development Studies* 15(3): 253-256.

Dahlby. B. (2008), *The Marginal cost of Public Funds: Theory and Applications*, Massachusetts: The MIT Press

Nautet, M., & Van Meensel, L. (2011). Economic impact of the public debt. *Economic Review* 2: 7-19.

Panizza, U., & Presbitero, A. F. (2014). Public debt and economic growth: is there a causal effect? *Journal of Macroeconomics* 41: 21-41.

Berg, M. A., Portillo, R., Buffie, M. E. F., Pattillo, M. C. A., & Zanna, L. F. (2012). *Public investment, growth, and debt sustainability: Putting together the pieces* (No. 12-144). International Monetary Fund.

Kosimbei, G., Wawire, N. H. W. Mburu T. K. (2010). *Budget deficits and macroeconomic performance in Kenya: An empirical Analysis*. Saarbrücken: VDMVerlag Dr. Muller. **ISBN: 978-3-639-30970-6**

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Ncube M. and Z. Brixiov (2015), “Public Debt Sustainability in Africa: Building Resilience and Challenges Ahead” *Development Policy Review* 33(5): 555-580.