Macroeconomics and Public Finance

Department of Public Policy
Fall Semester, 2007/2008

Lajos Bokros

Credits: 4

Assessment: 80 % exam, 20 % participation

Teaching format: lectures and seminars combined

Provisional curriculum:

1/ Fiscality
   • Characteristics of fiscal sector issues
   • Components of fiscal sector
   • Treatment of state owned enterprises

2/ Taxation
   • Theoretical underpinnings of taxation
   • Direct taxes (taxation of factor income)
   • Indirect taxes (taxation of business life)

3/ Public administration
   • Constitutional arrangements
   • Fiscal federalism
   • Subsidiary

4/ Analyzing public expenditure
   • Purchases, wages, current outlays
   • Public investments, capital spending
   • Transfers, subsidies, allowances

5/ Components of the fiscal sector at the national level
   • Central budget
   • Extrabudgetary funds
   • Social Security
6/ Financing and managing human infrastructure

- Pension and labor market issues
- Health and social support
- Education, culture and sport

7/ Pension systems

- Publicly managed unfunded systems (PAYG)
- Privately managed funded systems
- Occupational pension schemes

8/ Health care

- Demand and supply management in health care
- General practitioners, out-and in-patient care
- Multipillar solutions in health care finance

9/ Education

- Primary education managed by local governments
- Secondary education at subsovereign level
- Higher education in a competitive market

10/ Financing local governments

- Split and own revenues, transfers, subsidies
- Joint tasks financed by subsovereign alliances
- Social policy and practice at the local level

11/ The Open Economy

- Markets of good and services
- Financial markets
- Factor markets

12/ The Balance of Payments

- Current account
- Capital account
- Change in short-term net foreign assets (reserves)
13/ The Flow of Funds

- Saving and investment
- Disposable income and domestic use of income
- Deficit financing in an open economy

14/ Exchange rates

- Nominal exchange rate
- Real exchange rate
- Multilateral exchange rate

15/ Interest rates and exchange rates

- The choice between foreign and domestic financial assets
- Interest parity condition
- Arbitrage

16/ The goods market in an open economy

- The determinants of demand for domestic goods
- Equilibrium output and trade balance
- The impact of exchange rate policy on trade balance and output

17/ Exchange rate regimes

- Fixed exchange rate regime
- Flexible exchange rate regime
- Currency board arrangements

18/ Combination of monetary and fiscal policies

- The impact of fiscal contraction and expansion
- The impact of devaluation and revaluation
- The impact of changes in interest rates

19/ Optimal macropolicy mix in a small and open economy

- Devaluation with fiscal contraction
- Fiscal contraction with monetary expansion
- The use of income policy to regain competitiveness
20/ Rigidities in transition economies

- Subsistence and black economy, barter and dollarization
- Unreliable tax systems, massive avoidance and evasion
- Lack of coordination among elements of macroeconomic policy
Compulsory reading

1/ Public Finance Reform during Transition. The Experience of Hungary edited by Lajos Bokros and Jean-Jacques Dethier,
World Bank, 1996

Chapter 1. The General Trends and the Philosophy of Public Finance Reforms
Chapter 14. Wages and Employment in the Public Sector
Chapter 15. Sorting Out Intergovernmental Roles and Responsibilities

2/ Second Wave of Polish Reforms
edited by Lena Kolarska-Bobinska, Institute of Public Affairs,
Warsaw, 2000

Chapter 2. Territorial Government Reform
Chapter 3. Healthcare Reform
Chapter 4. Social Security Reform: Old Age and Disability Pensions
Chapter 5. Changes in Education – Ideas and Conditions
Chapter 6. Changes in Higher Education

3/ Averting the Old Age Crisis. A World Bank Policy Research Report
Oxford University Press, 1994

Chapter 4. Public Pension Plans
Chapter 5. Occupational Pension Plans
Chapter 6. Personal Savings Plans – Becoming Mandatory
Chapter 7. Putting the Pillars Together

4/ Health Economics in Development
Philip Musgrove, editor
The World Bank, Washington DC, 2004

Chapter 2. Public and Private Roles in Health
Chapter 9. Criteria for Public Spending on Health

5/ Bruce F. Davie and Bruce F. Duncombe: Public Finance
Holt, Rinehart & Winston, Inc. 1972

Chapter 7. Taxes and Resource Allocation
The Open Economy

Chapter 18. Openness in Goods and Financial Markets
Chapter 19. The Goods Market in an Open Economy
Chapter 20. Output, the Interest Rate, and the Exchange Rate
Chapter 21. Exchange Rate Regimes

Chapter 5. The Open Economy

8/ Robert Holzmann and Richard Hinz: Old Age Income Support in the 21st Century
The World Bank, 2005

Chapter 1. The Need for Reform
Chapter 2. Conceptual Foundations of the World Bank’s Perspective

9/ Liam Ebrill, Michael Keen, Jean-Paul Bodin, and Victoria Summers: The Modern VAT
International Monetary Fund, 2001

Chapter 1. The Nature, Importance, and Spread of the VAT
Chapter 2. Basic Design Issues

10/ Nicholas Barr: Labor Markets and Social Policy in Central and Eastern Europe
The Accession and Beyond
The World Bank, 2005

Suggested readings:

1/ Teresa Ter-Minassian: Fiscal Federalism in Theory and Practice
International Monetary Fund, Washington, 1997