

Syllabus

Public Economics: When Markets Need Governments

Professor: Emeric Henry
Session: June
Language of instruction: English
Number of hours of class: 36

Objective of the Course

How should the state intervene in the fight between Uber and taxis? How much should governments involve the private sector in providing health insurance to its citizens? Should Paris compete to host the Summer Olympics in 2024? These seemingly unrelated questions and many others will be addressed in this class using tools from economics, including in-class experiments and case studies, to understand the role that governments can play in the functioning of markets.

Summary

Many citizens think that economists blindly advocate the liberalization of all markets. In the case of regular goods, this perception is generally correct. For many other markets, however, most economists would argue that there are many reasons for state intervention, notably in reaction to what is often called “market failure.” Studying these market failures is the objective of the course.

Consider, for instance, the case of a firm whose production process pollutes the atmosphere. If markets are left unregulated, the firm will not internalize the impact of its activities on citizens’ health. State intervention is needed to correct what is referred to as an “externality.” This and other types of market failures will be studied.

Students will apply concepts learned in class through a group project exploring whether or not Paris should be encouraged to host the 2024 Summer Olympic Games. This is also an opportunity for students to discover another side of the city!

Organization of the Course

The course will begin with an in-class trading experiment to illustrate why simple markets for regular goods work efficiently and don’t require the intervention of the state. We will then discuss how the conditions of this experiment are quite specific and how many so-called “market failures” can arise, including four specific types of market failure.

Part 1: When markets work efficiently

The first part of the class will study supply and demand in environments where markets work efficiently. Students will use a practical case study of an industry to build a supply curve. This initial background in properly functioning markets is necessary to understand how market failures arise.

Part 2: Market failures

We will examine different types of market failures. Consider the following examples:

- When Microsoft tries to preserve its market power by abusive means, markets don’t work efficiently. The state needs to put antitrust policy in place.

- Automobile pollution is an example of markets not working efficiently. The state needs to put emission taxes or pollution permits into place.
- When the market fails to provide public goods, because individuals expect others to contribute without contributing themselves, the state needs to intervene to coordinate efforts and finance public goods.

Part 3: Policy in practice

In the final part of the course, we will discuss policy in practice and examine which political systems make it most likely that the state will try to maximize the welfare of its citizens.

Requirements for course validation

The course validation will be based on three grades:

- 20% for class participation, which includes a short presentation of newspaper articles related to the topic,
- 50% for a group project exploring whether or not Paris should be encouraged to host the 2024 Summer Olympic Games,
- 30% for a final exam testing the understanding of concepts covered in class.

Bibliography

Suggested readings:

- Stiglitz, Joseph. *Economics of the Public Sector*, New York ; London : W.W. Norton , 2000
- Gruber, Jonathan. *Public Finance and Public Policy*, New York : Worth Publishers , 2013

Main Professor Biography



Emeric Henry is a professor of economics at Sciences Po. He obtained a master's degree from ENSAE and Stanford University and holds a PhD in economics from Stanford University. Before joining Sciences Po he taught at London Business School. He has published in the leading academic journals in economics on topics ranging from innovation policy and political economy, to law and economics. He is the director of the doctoral program in economics at Sciences Po.