

# Economic and Fiscal Policy

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## Instructor

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## 1 Course objectives

This course provides an overview of key concepts in economic policy, and encourages engagement with current issues that policy-makers face against the backdrop of recent global challenges. Introducing the concepts of equity and efficiency, the course reviews how governments set priorities in economic policy and navigate trade-offs. The core of the course focuses on growth and distribution, before considering pressing policy issues in light of globalisation, demographic change and COVID-19.

In terms of transferable skills, students will improve their critical thinking skills. Through regular exercises that require employing critical thinking in economic policy problems, the course gives students the tools and opportunities to effectively engage in academic literature, develop their own arguments and present them in writing. Through Oxford-style debates, students practise how to structure argumentation and defend a position in economic policy debates based on academic research.

## 2 Class schedule

The course consists of three thematic blocks (corresponding to the background colour). The first block (in gray) will cover the principles according to which governments coordinate their economies. Subsequently, the course considers how economic policy affects distributional outcomes (blue). The third block will review how current megatrends affect economic policy making (beige). Some sessions feature short assignments or debates. An exam will be held in the final session.

Week of . . .	Topic	Debate	Assignment
	Introduction		
	Government and the market Politics in economic policy Institutions in economic policy		Klein (2022) Hall and Soskice (2001)
	Growth Income inequality Wealth inequality Social mobility	Gender quotas Inheritance taxation Educational tracking	Heckman (2006)
	Globalisation Demographic change COVID-19	Job guarantee Funded pensions Fiscal rules	Harper (2014) Eurofound (2021)
	Exam		

### 3 Assessment

#### Debates (30%)

Debates will discuss the merits and drawbacks of specific policies. Each debate has two teams, supporting and opposing the policy respectively. Groups are formed in the first session. The literature for each debate is listed in the syllabus. Each team has a total of 7 minutes to make a case for their side of the argument. This is followed by an open round of questions from the audience and the discussants. Subsequently, each team has the opportunity to respond to the questions from the audience and the opposing team. The debating teams will compile handouts for summarising their respective arguments (each side only elaborates on their points, not on the other team's argumentation). Handouts are uploaded to the folder on the learn platform before the debate takes place and can be submitted to the course convener one week ahead for feedback. The handouts ought to be clear and straightforward. Bullet points can be used, though full and clear sentences are required. Citation in APA-style. Handouts will not exceed one page in length and contain the names of the authors. Submission in .doc format. A good presentation/handout will be based on scientific evidence and provide a neat overview of the merits or drawbacks of a specific policy. Do not use newspapers or magazines as references. Jargon needs to be explained. Essential concepts should be communicated clearly. Argumentation skills, questions to the other team and ability to respond to questions will also matter. All students of one group will receive the same grade.

#### Exam (40%)

The exam is held in the final session. Students are examined on the core readings (asterisk) and slides.

#### Assignments (30%)

The course features five mandatory readings/resources, marked with an asterisk. On the learn platform, for each reading a task will be made available for students a week in advance of submission. Each task will contribute 6% towards the final grade. The tasks aim at promoting the engagement with the literature. Therefore, the written piece needs to refer to the respective reading.

#### In-class participation (5%)

Students are encouraged to participate in-class. Participation can earn up to a supplementary 5 percentage points to the grade.

### 4 Grading

Grade	Range
Sehr gut (1)	88% -100%
Gut (2)	76% - 87%
Befriedigend (3)	64% - 75%
Genügend (4)	51% - 63%
Nicht genügend (5)	0 - 50%

### 5 Detailed session overview

#### Government and the market

Main questions: What role can governments assume in economic policy? To what extent can economic theory provide guidance on the justification of government intervention? Literature:

- Stiglitz, Joseph E. Economics of the public sector. 3rd ed. New York: W. W. Norton, 2000. – Chapter 4
- Hopkin, Jonathan, and Mark Blyth. "What can Okun teach Polanyi? Efficiency, regulation and equality in the OECD." Review of international political economy 19.1 (2012): 1-33.

### Politics in economic policy

Main questions: What are the implications of democracy for economic policy? How do economic policy preferences come about? Literature:

- \* Klein, Michael. „How People Form, and Change Their Opinions on Economics (Re-Broadcast) | Econofact Chats“. Econofact. Zugegriffen 6. Oktober 2022. <https://econofact.org/podcast/how-people-form-and-change-their-opinions-on-economics>.
- Meltzer, Allan H., und Scott F. Richard. „A rational theory of the size of government“. Journal of political Economy 89, Nr. 5 (1981): 914–27.

### Institutions in economic policy

Is there a trade-off or a trade-in between optimal allocation of resources and their distribution? What institutions and policies can help to reconcile efficiency with equity? Literature:

- \* Hall, P. A., Soskice, D. (2001). An introduction to varieties of capitalism. Massachusetts: Harvard University Press - Chapter 1

### Growth

Main questions: What factors affect economic growth? What is the state of economic growth in Austria? How does the interplay between science and policy making work in view of growth policy? Literature:

- Hope, D., Soskice, D. (2016). Growth models, varieties of capitalism, and macroeconomics. Politics Society, 44(2), 209-226.
- Iversen, T., Soskice, D. (2010). Real exchange rates and competitiveness: The political economy of skill formation, wage compression, and electoral systems. American Political Science Review, 104(3), 601-623.

### Income Inequality

Main questions: Should economic policy care about inequality? How can we measure income inequality? What are the dimensions of inequality? What drives income inequality? Literature:

- \* Roser, Max, und Esteban Ortiz-Ospina. „Income Inequality“. Our World in Data, 5. Dezember 2013. <https://ourworldindata.org/income-inequality>.
- Förster, Michael F., und István György Tóth. „Cross-Country Evidence of the Multiple Causes of Inequality Changes in the OECD Area“. In Handbook of Income Distribution, 2:1729–1843. Elsevier, 2015. <https://doi.org/10.1016/B978-0-444-59429-7.00020-0>.

Debate:

- Bertrand, Marianne, Sandra E Black, Sissel Jensen, und Adriana Lleras-Muney. „Breaking the Glass Ceiling? The Effect of Board Quotas on Female Labour Market Outcomes in Norway“. The Review of Economic Studies 86, Nr. 1 (1. Januar 2019): 191–239. <https://doi.org/10.1093/restud/rdy032>.

- Smith, Nina. „Gender Quotas on Boards of Directors“. IZA World of Labor, 2018. <https://doi.org/10.15185/izawol.7.v2>.
- Matsa, David A., und Amalia R. Miller. „Chipping away at the glass ceiling: Gender spillovers in corporate leadership“. American Economic Review 101, Nr. 3 (2011): 635–39.

### Wealth inequality

Main questions: How and why is wealth inequality different from income inequality? What historical patterns does wealth inequality follow? Literature:

- \* Fessler, Pirmin, und Martin Schürz. „Private Wealth Across European Countries: The Role of Income, Inheritance and the Welfare State“. Journal of Human Development and Capabilities 19, Nr. 4 (2. Oktober 2018): 521–49. <https://doi.org/10.1080/19452829.2018.1507422>.
- Atkinson, A B. „Inequality – What Can Be Done?“ Working Paper. International Inequalities Institute Working Paper Series. London: LSE International Inequalities Institute, 2015.

Debate:

- OECD. Inheritance Taxation in OECD Countries, 2021. <https://doi.org/10.1787/e2879a7d-en>. – Chapter 2
- Salin, Pascal. „Immoral and Harmful: Inheritance Taxes“. In Tax Tyranny. Economics 2020. Edward Elgar Publishing, 2020. [https://www.elgaronline.com/view/9781789907025/07\\_chapter4.xhtml](https://www.elgaronline.com/view/9781789907025/07_chapter4.xhtml).
- Boserup, Simon H., Wojciech Kopczuk, und Claus T. Kreiner. „The role of bequests in shaping wealth inequality: evidence from Danish wealth records“. American Economic Review 106, Nr. 5 (2016): 656–61.

### Social mobility

Main questions: What concepts exist to understand intergenerational mobility? Which factors account for intergenerational persistence? How can policy increase intergenerational social mobility? Literature:

- \* Heckman, James J. „Skill formation and the economics of investing in disadvantaged children“. Science 312, Nr. 5782 (2006): 1900–1902.
- Corak, Miles. „Income Inequality, Equality of Opportunity, and Intergenerational Mobility“. Journal of Economic Perspectives 27, Nr. 3 (1. August 2013): 79–102. <https://doi.org/10.1257/jep.27.3.79>.

Debate:

- Pekkarinen, Tuomas. „School Tracking and Intergenerational Social Mobility“. IZA World of Labor, Nr. 56 (2014). <https://doi.org/10.15185/izawol.56>.
- Shavit, Yossi, und Walter Müller. „Vocational Secondary Education“. European Societies 2, Nr. 1 (Januar 2000): 29–50. <https://doi.org/10.1080/146166900360710>.
- Duflo, Esther, Pascaline Dupas, und Michael Kremer. „Peer effects, teacher incentives, and the impact of tracking: Evidence from a randomized evaluation in Kenya“. American Economic Review 101, Nr. 5 (2011): 1739–74.

## Globalisation

Main questions: What are the economic consequences of globalisation? Are modern trade agreements still fostering efficiency? Literature:

- \* Ortiz-Ospina, Esteban, und Diana Beltekian. „Trade and Globalization“. Our World in Data (blog), 2018. <https://ourworldindata.org/trade-and-globalization#explaining-trade-patterns-theory-and-evidence>.
- Rodrik, Dani. „What Do Trade Agreements Really Do?“ Journal of Economic Perspectives 32, Nr. 2 (Mai 2018): 73–90. <https://doi.org/10.1257/jep.32.2.73>

Debate:

- Sawyer, Malcolm. „Employer of Last Resort: A Response to My Critics“. Journal of Economic Issues 39, Nr. 1 (März 2005): 256–64. <https://doi.org/10.1080/00213624.2005.11506790>.
- Standing, Guy. „Why a Job Guarantee Is a Bad Joke for the Precariat – and for Freedom“. Brave New Europe (blog), 12. September 2018. <https://braveneweuropa.com/guy-standing-why-a-job-guarantee-is-a-bad-joke-for-the-precariat-and-for-freedom>.
- Tcherneva, Pavlina R. The case for a job guarantee. John Wiley Sons, 2020.

## Demographic change

Main questions: What drives demographic change? What are the challenges associated with the changing demographic structure? How can economic policy avert adverse consequences of demographic change? Literature:

- \* Harper, S. „Economic and Social Implications of Aging Societies“. Science 346, Nr. 6209 (31. Oktober 2014): 587–91. <https://doi.org/10.1126/science.1254405>.
- Roser, Max, Esteban Ortiz-Ospina, und Hannah Ritchie. „Life Expectancy“. Our World in Data, 23. Mai 2013. <https://ourworldindata.org/life-expectancy>.

Debate:

- Barr, Nicholas. „Reforming Pensions: Myths, Truths, and Policy Choices“. Working Paper. IMF Working Paper. Washington D.C.: IMF, 2000. <https://www.imf.org/external/pubs/ft/wp/2000/wp00139.pdf>.
- Ebbinghaus, Bernhard. „The Privatization and Marketization of Pensions in Europe: A Double Transformation Facing the Crisis“. European Policy Analysis 1, Nr. 1 (2015). <https://doi.org/10.18278/epa.1.1.5>.
- Blackburn, Robin. Banking on death, or, Investing in life: the history and future of pensions. London; New York: Verso, 2003.: Introduction

## COVID-19

Main questions: What challenges arise from COVID-19 for economic policy and public finance? How will inequality respond to the pandemic? Literature:

- \* <https://www.eurofound.europa.eu/data/covid-19-eu-policywatch>
- Stantcheva, Stefanie. „Inequalities in the Times of a Pandemic“. Economic Policy, 2020, 60.

Debate:

- Bilbiie, Florin, Tommaso Monacelli, und Roberto Perotti. „Fiscal Policy in Europe“. *Journal of Economic Perspectives* 35, Nr. 2 (2021): 25.
- Rodrik, Dani. „Is Populism Necessarily Bad Economics?“ *AEA Papers and Proceedings* 108 (1. Mai 2018): 196–99. <https://doi.org/10.1257/pandp.20181122>.
- Wyplosz, Charles. „Fiscal Rules - Theoretical Issues and Historical Experiences“. In *Fiscal Policy after the Financial Crisis*, 32. Chicago: University of Chicago Press, 2013.