

**THE UNIVERSITY OF THE WEST INDIES, ST. AUGUSTINE
FACULTY OF SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS**

ECON 3052 COURSE OUTLINE

SEMESTER II 2018/2019

COURSE CODE: ECON 3052

COURSE TITLE: Fiscal Policy and Economic Development

NO. OF CREDITS: Three (3)

LEVEL: III

PREREQUISITES: ECON 2003

COURSE DESCRIPTION

The course examines the impact of fiscal policy on economic activity with special reference to CARICOM/Caribbean economies. Some of the issues raised are the following: the role of state in the economy; the nature and implication of fiscal deficits; fiscal rules in theory and practice; and the appropriateness of orthodox stabilization policies (austerity measures). A special module examines theoretical and empirical issues of fiscal decentralization.

COURSE RATIONALE

This course exists as an attempt by the Department of Economics to provide graduates in economics with the requisite technical tools to analyze the impact of fiscal policy on the development of economies in the region.

INSTRUCTOR INFORMATION

Dr. Penelope Forde (Lecturer)

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Ms. Rani Bhajan (Tutor)

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LETTER TO THE STUDENT

The student should be made aware that Fiscal Policy and Economic Development is actually a line of study concerned with the impact of fiscal policy on development outcomes. The course is designed to equip you with the tools necessary for analyzing the fiscal issues facing the developing countries in general and the Caribbean in particular.

CONTENT

1. Unit 1 – The Role of the State and Fiscal Policy
2. Unit 2 – Fiscal Policy and the Deficit Problem of Developing Countries
3. Unit 3 – Fiscal Policy and Structural Adjustment
4. Unit 4 – Fiscal Decentralization: Current Trends and Issues

LEARNING OUTCOMES

Topic/Unit	Learning Outcomes
Unit 1 – The Role of the State and Fiscal Policy	Students should be able to understand the changing perspectives of the role of the State over the twentieth and the first quarter of the twenty-first century. In 2009 the global financial crisis has led once more to some rethinking of the role of government. Students should also have a view of the State’s role in developing countries with special reference to CARICOM as well as an overview of fiscal policy and its impact on developing economies.
Unit 2 – Fiscal Policy and the Deficit Problem of Developing Countries	Students should be able to understand the following: <ul style="list-style-type: none"> • Different measurements of the fiscal deficit and how deficits are financed; • Impact of fiscal deficits/(surpluses) on interest rates, national savings, economic growth and resource use; • Reasons for fiscal deficits in developing as well as advanced economies; • Fiscal Vulnerability and Financial Crises; • Fiscal Rules in Theory and Practice; • Trends in internal and external debt; and • Debt Sustainability.
Unit 3 – Fiscal Policy and Structural Adjustment	In this module students are introduced to the concept of Tanzi’s Fiscal Disequilibrium and its consequences; the economics of structural adjustment policies; case studies of structural adjustment in the Caribbean; and critique of orthodox stabilization policies (austerity measures).
Unit 4 – Fiscal Decentralization: Current Trends and Issues	Students should be able to: define concepts of fiscal federalism, fiscal and administrative decentralization; discuss issues relating to the provision of public goods in multilevel systems of government; discuss the assignment of tax bases at different levels of governments; intergovernmental transfers and examine at least two case studies of fiscal decentralization.

COURSE ASSESSMENT

The course will be assessed via a coursework assignment that will account for 25% of the final grade as well as a final examination that will account for the remaining 75% of the final grade.

TEACHING STRATEGIES

Teaching will primarily take place through descriptive face to face lecture sessions and class discussions. Lectures will be conducted on Tuesdays between 8:00 a.m. to 10:00 a.m.

RESOURCES/READINGS

The main textbooks for the course are as follows:

Howard, Michael, Althea La Foucade and Ewan Scott. 2009. *Public Sector Economics for Developing Countries*. Kingston, Jamaica: UWI Press.

Levitt, Kari. 2005. *Reclaiming Development: Independent Thought and Caribbean Community*. Kingston, Jamaica: Ian Randle Publishers. **Chapters 5-11**.

Ramsaran, Ramesh, ed. 2004. *The Fiscal Experience in the Caribbean – Emerging Issues and Problems*. Caribbean Centre for Monetary Studies (CCMS), the University of the West Indies (UWI), St. Augustine. **Chapters 1-8 and Chapter 10**.

This will be supplemented by handouts during the semester.

Data Sources: <http://www.ccmf.uwi.org>, <http://www.central-bank.org.tt>, <https://edab.org.tt/#>, <http://www.caribank.org/>, <https://www.eccb-centralbank.org/>, www.iadb.org and www.imf.org

The readings for each Unit are as follows:

Unit	Readings
Unit 1 - The Role of the State and Fiscal Policy	<p>Tanzi, Vito, “Fiscal Policy for Growth and Stability in Developing Countries: Selected Issues” pp.15-27 in A. Premchand (ed) Government Financial Management: Issues and Country Studies, IMF, 1990</p> <p>Tanzi, Vito, “The Changing Role of the State in the Economy: An Historical Perspective” pp 17-36 in Fiscal Decentralization in Emerging Economies, K. Fukasaku and L.R. de Mello Jr. (eds), OECD 1999</p> <p>Tanzi, Vito and Ludger Schuknocht, “Reconsidering the Fiscal Role of Government: The International Perspective”, AER Papers and Proceedings May 1997 pp. 164-168</p> <p>Matthias, Rudolph and Anthony Birchwood, “Government Spending and Economic Growth in Latin America and the Caribbean”, CCMF Collection, The Fiscal Experience in the Caribbean 2004 pp. 407-450</p>

	<p>Musgrave, Richard A., “Reconsidering the Fiscal Role of Government”, AER Papers and Proceedings, May 1997 pp.156-159</p> <p>Tanzi, Vito, “The Role of the State and the Quality of the Public Sector”, IMF Working Paper WP/00/36</p> <p>Auerbach, Alan, “Implementing New Fiscal Policy Activism”, AER Papers and Proceedings, May 2009 pp.543-549</p> <p>Feldstein, Martin S., “Rethinking the Role of Fiscal Policy”, AER Papers and Proceedings, May 2009 pp.556-559</p> <p>Additional Reading (Optional)</p> <p>World Bank, World Development Report 1997, The State in a Changing World and later issues.</p>
<p>Unit 2 - Fiscal Policy and the Deficit Problem of Developing Countries</p>	<p>Blejer, Mario J. and Adrienne Cheasty, “How to Measure the Fiscal Deficit” in Finance and Development, September 1992 pp.40-42</p> <p>Afxentiou, P.C., “Fiscal Policy and Economic Development” Developing Economies Vol.XIV No.2 1976 pp. 164-178</p> <p>Morrison, T.K., “Structural Determinants of Government Budget Deficits in Developing Countries”, World Development, June 1982 pp.467-473</p> <p>Khan, Sarosh R. and Inder Jit Ruprah. 2014. To Bind or Not to Bind: A Fiscal Policy Dilemma in the Caribbean. Inter-American Development Bank (IDB) Policy Brief No. 236.</p> <p>Kopits G. and S. Symansky, (1998) Fiscal Policy Rules, IMF Occasional Papers 162</p> <p>Trinidad and Tobago IMF Article IV Consultation Reports (latest issue)</p> <p>Hemming R. et al, (2003) Fiscal Vulnerability and Financial Crises in Emerging Market Economies, IMF Occasional Paper 218</p> <p>Additional Reading (Optional)</p> <p>M. Eslava, The Political Economy of Fiscal Deficits: A Survey, Journal of Economic Surveys, Vol.25 No.4 2011 pp. 645-673</p> <p>Budget Deficits: A Symposium, Journal of Economic Perspectives Vol.3 No.2 Spring 1989 pp.23-93</p>

	<p>Evan Tanner, Fiscal Rules and Countercyclical Policy: Frank Ramsey Meets Gramm-Rudman Hollings, IMF Working Paper 03/120</p>
<p>Unit 3 - Fiscal Policy and Structural Adjustment</p>	<p>Fischer, Stanley, “Applied Economics in Action”, AER Papers and Proceedings May 1997, Vol.87 No.2 pp.23-27</p> <p>Theodore, Karl, “Fiscal Policy in the Caribbean: Where Do We Go from Here” in J. La Guerre (ed) Structural Adjustment</p> <p>Tanzi, Vito, “Fiscal Disequilibrium in Developing Countries” World Development Vol.10 No.12 pp.1069-1082, 1982</p> <p>Hilaire, Alvin, “Caribbean Approaches to Economic Stabilization” IMF Working Paper WP/00/73</p> <p>Fiscal Adjustment for Stability and Growth, 2006, IMF Pamphlet Series No.55</p> <p>IMF Letters of Intent (For Selected Countries) Additional Reading (Optional)</p> <p>C. Blackman, A Heterodox Approach to the Adjustment Problem. First Adlith Brown Memorial Lecture, ISER 1986</p> <p>Farrell, Terrence. 2015. The Imperative of Adjustment. Trinidad Express. January 4.</p>
<p>Unit 4 - Fiscal Decentralization: Current Trends and Issues</p>	<p>Oates, Wallace, “Federalism and Government Finance” pp.10-23 in W. Oates (ed) The Economics of Fiscal Federalism and Local Finance, Elgar 1998</p> <p>Oates, Wallace, “Introduction” pp. xiii-xix in W. Oates (ed) The Economics of Fiscal Federalism and Local Finance, Elgar 1998</p> <p>Tanzi, Vito, “Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects” pp.295-316 in Michael Bruno and Boris Pelskovic (eds) Annual World Bank Conference on Development Economics, World Bank, Washington, D.C. 1995</p> <p>Ter-Minassian, Teresa, “Decentralization and Macroeconomic Management” pp.55-66 in K. Fukasaku and L. de Mello (eds) Fiscal Decentralization in Emerging Economies, OECD, 1999</p>

	<p>Additional Reading</p> <p>“Fiscal Decentralization: The Search for Equity and Efficiency” pp.175 et seq. in IADB Economic and Social Progress in Latin America, 1994.</p> <p>Duc Hong Vo, The Economics of Fiscal Decentralization, Journal of Economic Surveys, Vol.24 No.4, 2010 pp.657-679</p>
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COURSE CALENDAR

Week(s)	Topic/Unit
1 - 3	Unit 1 – The Role of the State and Fiscal Policy
4 - 6	Unit 2 – Fiscal Policy and the Deficit Problem of Developing Countries
7 - 9	Unit 3 – Fiscal Policy and Structural Adjustment
10 - 12	Unit 4 – Fiscal Decentralization: Current Trends and Issues
13	Review

ADDITIONAL INFORMATION

Please take note of the **UWI Examination Regulation No. 19** which states that:

“Any candidate who has been absent...or whose attendance at prescribed lectures, classes, **tutorials**,... has been unsatisfactory...or who has failed to submit essays or other exercises...**may be debarred** by the relevant Academic Board, on the recommendation of the relevant Faculty Board...**from taking any University examinations**...”

The Department of Economics/Faculty of Social Sciences **requires students to attend and participate in at least 75% of tutorials for a course to avoid being debarred from taking the final exam.**

Also, take note of the **UWI Examination Regulation No. 97** as it relates to **cheating**:

- (i) Cheating shall constitute a major offence under these regulations;
- (ii) Cheating is any attempt to benefit one’s self or another by deceit or fraud;
- (iii) Plagiarism is a form of cheating;
- (iv) Plagiarism is the unauthorized and/or unacknowledged use of another person’s intellectual effort and creation howsoever recorded including

whether formally published or in manuscript or in typescript or other printed or electronically presented form and includes taking passages, ideas or structures from another work or author without proper and unequivocal attribution of such source(s) using the conventions for attributions or citing used in this University.

HOW TO STUDY FOR THIS COURSE

Students should keep up to date with the course material via the suggested readings as well as the lecture notes. Consultation with the course lecturer during office hours is also strongly recommended.

GRADING SYSTEM

The authorized marking scheme for examinations in the Faculty of Social Sciences is as follows:

Grade	GPA	Marks (%)
A+	4.3	90-100
A	4.0	80-89
A-	3.7	75-79
B+	3.3	70-74
B	3.0	65-69
B-	2.7	60-64
C+	2.3	55-59
C	2.0	50-54
F1	1.7	45-49
F2	1.3	40-44
F3	0.0	0-39