Lahore University of Management Sciences
ECON 4602 – Public Finance
Fall 2026

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Course Basics

Credit Hours	4
Lectures	2 per week, 1 hour 50 minutes each
Teaching methodology	Fully in-person; discussion-driven
Core / Elective	Elective

Course Description

Public finance or *public economics* is the study of the state as an economic actor: what it should provide, whom it should support, what it should tax, and how it should collect. Every government faces these questions. This course studies them as they arise in developing countries, where they take a distinctive form: much of the economy operates off the books, the machinery for implementing policy is often weak, and trust between citizens and the state cannot be taken for granted. These conditions shape how policy must be designed, but design is only half the story. Policies are carried out by tax collectors, teachers, doctors, and inspectors, so their incentives are part of the economics too.

This course gives you the tools to think about all of this precisely. You will learn to ask, of any government program: who really bears the burden, and does it make people better off per rupee it costs? You will read modern empirical research that answers these questions with real data from across the developing world, and by the end, you will write a research proposal of your own.

The course has three parts. **Part I** builds the foundations: the fiscal facts of developing countries, the theory of when a state should intervene in markets, and the tools — theoretical and empirical — for judging whether a policy makes people better off. **Part II** studies the state as a spender: public goods, the evaluation of public projects, programs that support poor households, schools and hospitals, the officials who run all of this, and the politics and federal structure through which spending decisions are made. **Part III** studies the state as a tax collector: why tax revenue is low, who really bears each tax, and how income, consumption, and property taxes work when enforcement is hard.

Course Prerequisites

Intermediate microeconomics. The course is mathematically involved: comfort with algebra, calculus, and basic statistics is assumed. Two refresher appendices will be provided with the course readings: a mathematical appendix (functions, derivatives, optimization, the envelope theorem, basic probability, distributions) and a microeconomic toolkit (consumer and producer theory, markets).

Learning Outcomes

By the end of this course, you will be able to: (i) describe what governments in developing countries raise, spend, and owe, and explain the forces behind these patterns; (ii) evaluate tax and spending policies using welfare analysis, including interpreting and computing the MVPF; (iii) explain how informality and scarce enforcement capacity shape the design of taxes and transfers; (iv) interpret empirical evidence and assess the credibility of causal claims behind policy conclusions; and (v) write a feasible research proposal on a public finance problem.

Reading Material

This course is taught from the draft chapters of a book I am writing, *Public Economics for Developing Countries***.** Each week's primary reading is a draft chapter, distributed through the LMS. Because these are unpublished manuscript chapters, they are for your use in this course only: do not post or share them anywhere. You may use AI tools privately to study the chapters, the same way you use AI with any reading in this course. In fact, if an AI explanation of a concept genuinely helped where the chapter didn't, say so in your weekly memo — that tells me the chapter needs rewriting, and will be useful feedback. Beyond the chapters, I will assign additional readings, problem sets, and policy documents through LMS as the course proceeds.

Optional textbooks

- Jonathan Gruber, *Public Finance and Public Policy* (7th ed., Macmillan, 2022)
- Joseph Stiglitz & Jay Rosengard, *Economics of the Public Sector* (4th ed., Norton, 2015)

Raj Chetty's public economics lectures (YouTube) are excellent, advanced complements.

Books to spark interest:

- James C. Scott, *Seeing Like a State* — what states can and cannot see, and why grand schemes fail
- Katherine Boo, *Behind the Beautiful Forevers* — the state at street level in a Mumbai slum; reads like a novel
- Stefan Dercon, *Gambling on Development* — why some countries' elites bet on growth and others do not
- T. R. Reid, *A Fine Mess* — a funny world tour of tax systems
- Gabriel Zucman, *The Hidden Wealth of Nations* — a short, sharp account of tax havens
- Daron Acemoglu & James Robinson, *The Narrow Corridor* — the struggle between state capacity and society's control over it
- Joel Slemrod & Michael Keen, *Rebellion, Rascals, and Revenue* — tax follies and wisdom through the ages
- Muhammad Mujtaba Piracha, *Property Taxes and State Incapacity in Pakistan*
- Moore, Prichard & Fjeldstad, *Taxing Africa*

Grading Breakup

Component	Weight
Weekly Reading Memos & Applied Assignments	20%
Class Participation	10%
Midterm Examination	20%
Final Examination	20%
Research Proposal (incl. graded milestones)	20%
Research Proposal Presentation	10%

Weekly Reading Memos

Every week, you submit a one-page memo on the assigned chapter, due on the LMS the night before the week's first session. The format is the same every week:

Part	What it asks
1. The core idea	The chapter's central argument in your own words
2. One attempted problem	Your attempt at one designated end-of-chapter problem, with your reasoning shown
3. Muddiest point	The passage or concept you found hardest, and why
4. Discussion starter	One question for the class, or one real-world example the chapter should include

Memos are graded 0/1/2 (missing / completed / thoughtful engagement). It is graded on the seriousness of the attempt, not on correctness; a wrong answer with clear engagement earns full credit. An N–2 policy applies**:** if there are N memo weeks, your grade is based on your best N–2 memos, so up to two may be missed for any reason without penalty. Class sessions begin from your memos, and you may be asked to share your muddiest points and discussion starters, so a memo written honestly is also your preparation for class. Your memos also directly shape how I revise the book chapters. In two weeks of the semester, announced in advance, the memo is replaced by an applied assignment. Each counts as three memos.

Class Participation

Class runs on discussion, and your memo is your preparation for it. In most sessions, you will be asked to share your discussion starter or walk through your worked problem; beyond that, you should contribute by asking questions, offering comments, and engaging with the discussion. Participation is scored every session. Attendance is expected; an absence scores zero participation for that day. For extenuating circumstances, contact the TA before your intended absence or within one week after it.

Examinations

The **midterm**, in-class, tentatively October 22nd, 2026; one cheat sheet is allowed. The final exam, on the date and time scheduled by the university, covers only the post-midterm material; one cheat sheet is allowed. Both exams test understanding rather than memory. The end-of-chapter problems are your practice bank: exam questions will be new problems in the style of the harder ("stretch") tier, so working through those — attempting them before looking anything up — is the preparation that pays. Written solution sets are never distributed but discussed in class.

Research Proposal (individual or pairs)

You will identify a public-finance problem and write a proposal to study it, informed by the tools of the course. The goal is a viable plan for a paper, not a finished paper; I would rather you get 50% of the way toward a project you are excited to continue than complete something unambitious. Structure (Introduction; Literature & Contribution; Policy Review; Theoretical Motivation; Data; Empirical Methodology; Preliminary Results as feasible; max 10 pages) follows the Research Proposal Description on LMS. Evaluation: novelty and relevance of the question, correct use of theory, quality of data analysis, and above all, feasibility.

<u>Milestones (graded, 5% of the 20%):</u>

Week	Milestone
End of Week 3	Topic + Intro (question, why it matters)
End of Week 6	Question + literature positioning + policy relevance
End of Week 10	Methodology and Data
Week 14	Presentation + peer discussant round + full draft

Research Proposal Presentation

The last week is devoted to proposal presentations and will be evaluated on coherence, engagement, and quality of your presentation.

Weekly Schedule

The tentative schedule of topics is as follows.

Week	Topic (Book Chapter)
1	The fiscal facts of developing countries (Ch. 1)
2	When should the state intervene? (Ch. 2)
3	The welfare analysis toolkit: incidence, DWL, MVPF (Ch. 3)
4	The empirical toolkit (Ch. 4); Public goods & externalities under weak enforcement (Ch. 5, start)

5	Public goods & externalities (Ch. 5, cont.); Evaluating public projects: CBA (Ch. 6)
6	Anti-poverty programs: targeting, cash, in-kind (Ch. 7)
7	Delivering education and health (Ch. 8)
8	**Review and Midterm Exam** (Chs. 1–8)
9	Corruption and the state's personnel (Ch. 9)
10	Political economy & fiscal federalism (Ch. 10); Why do developing countries tax so little? (Ch. 11)
11	Tax incidence and efficiency (Ch. 12)
12	Taxing income in an informal economy (Ch. 13)
13	The VAT (Ch. 14); Taxing property (Ch. 15); Administration outlook (Ch. 16)
14	**Research Proposal Presentations**
—	**Final Exam** (university schedule; Chs. 9–16)

Artificial Intelligence (AI) Use Policy

This course embraces the responsible and transparent use of generative AI tools (e.g., ChatGPT, Gemini, Grok, Claude). AI is now part of the research, writing, and analytical ecosystem — much like calculators, econometric software, or search engines. The goal of this course is not to restrict these tools, but to help you learn how to use them **thoughtfully, ethically, and effectively**. You are encouraged to explore how AI can support your work — brainstorming, organizing, refining, or sense-checking your ideas — as long as **you remain the primary author** of your intellectual work and **you disclose your AI use clearly**.

You may use AI tools for generating ideas or research questions, organizing outlines or structuring arguments; refining writing for clarity and tone, reviewing and interpreting statistical code (e.g., Stata, R, Python); providing examples, definitions, or summaries of papers, citation formatting, and grammar correction.

You may not: submit AI-generated output without understanding or editing it; present AI-written content as your sole contribution without disclosure; allow AI tools to substitute for your engagement with the core readings; or post course materials, including the draft book chapters, on any public platform or shared repository.

You are responsible for the accuracy, relevance, and originality of everything you submit. AI is a collaborator, not an author. Misrepresentation, hallucinated citations, or uncritical copy-pasting will affect your grade and may trigger an academic integrity review.

AI Disclosure Requirement. If you use AI in any part of an assignment, include an AI Disclosure Box at the end of your submission for each task: *Tool Used; Purpose; Prompt(s); AI Output Summary and Adjustments*. If AI was not used, write: "AI Use Disclosure: I did not use AI tools for this assignment." When in doubt: **ask** whether AI is supporting your learning or short-circuiting it; **cite** clearly how and where you used it; **reflect** on what the tool contributed and what you did beyond it.

Harassment

LUMS is a harassment-free zone. There is absolutely **zero tolerance** for any behavior that is intended to or has the expected result of making anyone uncomfortable and negatively impacts the class environment or any individual's ability to work to the best of their potential. If you think you may be a victim of harassment, or have observed harassment in the purview of this class, please reach out and speak to me. I strongly encourage you to contact the Office of Accessibility and Inclusion at oai@lums.edu.pk or the sexual harassment inquiry committee at harassment@lums.edu.pk for queries, clarifications, or advice. You may choose to file an informal or a formal complaint to put an end to the offending behavior.