

## **PUBLIC ECONOMICS: WHEN MARKETS NEED GOVERNMENTS**

Professor: **Emeric HENRY**  
Session: **June 2023**  
Language of instruction: **English**  
Number of hours of class: **36h**



### **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? How has the pandemic changed the role of the state? Should the state provide higher education or should it be left to private universities? 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 regulating economic activity.



### **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 effect 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.

The class will be very applied, with regular discussions of newspaper articles. Students will apply concepts learned in class through a group project, exploring a particular type of public intervention. The students will present their projects during the last classes.



## 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 do not 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 Google tries to preserve its market power by abusive means, markets do not 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 the most likely that the state will try to maximize the welfare of its citizens. In particular, we will discuss policies in health care (with a special focus on the pandemic), education, labor laws and innovation.



## Professor's 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 the London Business School. He has published in leading academic journals in economics on topics ranging from innovation policy and political economy to law and economics. He now has a special focus on the regulation of fake news and on the interactions between the public and private sector. To know more visit: <https://sites.google.com/site/emericmlhenry/home>