Assuming the understanding of microeconomics at the intermediate level, this course examines the microeconomics and welfare foundation of public economic policy. After introducing students to basic concepts including Pareto optimality, social choice, externality, second best, this course discusses the appropriate ultimate objectives in public policy, the attainment and impediments to Pareto optimality, ways to solve the paradox of social choice, incentive compatibility in preference revelation for public goods, the dilemma of second best, the tradeoff between efficiency and equality, and the optimal level of public spending taking into account related issues like environmental quality, relative income effects, and recent results in happiness studies.

**Topics**
1. Introduction
2. Pareto optimality of competitive equilibrium
3. Social choice
4. External effects, environmental protection and sustainable development
5. The optimal size of public spending and the distortionary cost of taxation
6. Theories of second and third best
7. Division of labour, increasing returns, and welfare economics
8. From preference to happiness

**Prescribed Textbooks**


**Supplementary:**
Ng, Y.-K. (2011). *Common Mistakes in Economics: By the Public, Students, Economists, and Nobel Laureates*, Nova, 2011; especially chs. 4, 6, 8. Open access at:


黄有光，《快乐之道：个人与社会如何增加快乐？》复旦大学出版社，2013。


Additional References will be given out in class.