

Econ 322 (Public Economics)

Syllabus

Spring 2012

Course Meets: Tuesdays and Thursdays, 3 – 4.15 pm, King 221

Contact Details

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Office Hours: Tuesdays, 4.30 – 5.30 pm; Wednesdays, 2 – 3.30 pm; Thursdays, 1.30 – 2.30 pm; other times by appointment.

Course Description and Objectives

The public sector accounts for about a third of all economic activity in the United States. (And that ratio is small compared to some other industrialized countries.) Government affects almost everything that we do in our daily lives, sometimes for the better, sometimes for the worse. This course uses tools of microeconomic analysis to study the taxing and the spending activities of government. We will:

- Examine foundations of welfare economics and rationales for the existence of government.
- Focus on the efficiency and equity of resource allocations with and without government intervention.
- Explore public policy under two lenses: expenditures and revenues.
- Discuss examples of empirical research to apply in context the mainly theoretical models we discuss.

Prerequisites

The prerequisite for this class is Econ 253, Intermediate Microeconomics. Having this prerequisite is very important because we will build directly on concepts that you would have already seen. To avoid redundancy, I will not spend time covering them in detail. As illustration, here are some concepts that are “**assumed knowledge**” for this class:

- **Univariate calculus** (I will introduce multivariate concepts in lecture if we need to) – in practice, this means you know how to take the derivative of any function in one variable.
- Indifference curves, budget constraints
- Utility maximization with a budget constraint – will be reviewed quickly
- Income and substitution effects

- Econometrics/statistics, regression analysis and knowing how to read regression results are useful, but not obligatory.

NOTE: “Assumed knowledge” does *not* mean you are 100% proficient, but simply that you’re not a complete stranger to it. I will be doing lots of examples to remind you of the concepts and the theory along the way.

Textbook and Course Materials

Textbook. The required textbook for this course is Jean Hindriks’ and Gareth Myles’ *Intermediate Public Economics*, MIT Press, 2006. It is not recommended that you read too much of the textbook in advance; it is dense and we may not cover everything in lectures.

IMPORTANT NOTE: If you go online to purchase this textbook, you may notice that a solution manual to the textbook exists. This manual gives you the solutions to all the exercises in the textbook. Some, but not all, of the assignment problems will come from the textbook, and so ***it is part of the Honor Code that you NOT purchase or use this manual.***

Supplementary and optional books. The following three books are less mathematically rigorous public finance textbooks. They are not meant to replace the textbook but give better coverage of the policy implications of our theoretical models.

- Harvey S. Rosen & Ted Gayer, *Public Finance*, 9th edition, McGraw-Hill, 2010.
- Holley H. Ulbrich, *Public Finance in Theory and Practice*, 2nd edition, Routledge, 2011.
- Jonathan Gruber, *Public Finance and Public Policy*, 3rd edition, Worth, 2010.

Readings. There will be some additional readings from academic journals and other texts that will supplement our textbook. These will be made available on Blackboard, and I expect you to have read them (not necessarily thoroughly) in preparation for the lecture where we discuss them.

Blackboard. As a registered student, you should be able to view the Blackboard page for this course. This is the site where I will post lecture notes, additional study material and announcements for this course. It is your responsibility to check the site often. Lecture notes will generally be posted a few days before the lecture we cover them in. I recommend that you print them out and bring them to class so that you can take notes on them. Note that the lecture notes are *incomplete*, as we will fill in the missing graphs, diagrams and equations during the lecture. If you miss a lecture, it is your responsibility to find a classmate who attended class to fill in the blanks.

Grading

There are five components to your course grade.

Participation (10%). I value your participation and expect you to take an active role in this class. This includes attending class, contributing to classroom discussion and reading assigned materials in advance

of the lecture. Attendance will factor into your classroom participation grade, but it is not the only factor in its determination. Random attendance checks may be taken at any time.

Assignments (20%). There will be five homework assignments, which will be posted on Blackboard. You will have at least one week to complete the assignment. You are permitted to work with at most one other student on assignments; if you do so, you should hand in *one assignment* with both your names on it.

You MUST hand in your assignment in the first fifteen minutes of the class that it is due (in other words, between 3 and 3.15 pm). Here are the penalties for lateness:

- Handed in during class but after the first 15 minutes: 20% penalty. If you intend on doing this, please hand your assignment in at the *end* of the class to avoid disturbing the lecture.
- Handed in within 24 hours of due time: 30% penalty.
- Handed in after 24 hours: 100% penalty.
- Exceptions can be made for documented reasons.

Policy Briefs (15%). You will explore in more detail two specific government policies of your choosing by writing policy briefs. They should be five or six double-spaced pages, no more, no less. You should cover the economic motivation and brief history of the policy; the political and economic factors in its design; the implementation, successes/failures and winners/losers; and any prescription for altering the policy in the future. The first policy brief will cover a public expenditure policy, while the second brief will cover a public revenue policy. You may choose a federal, state or local policy. More information will be given to you about this requirement, including sample topics, later.

Midterm (25%). There will be one in-class midterm exam held on Thursday, 22 March 2012. The exam will be a combination of short-answer problems and short-essay questions. The exam will be open-book and open-notes. The midterm will last 1 hour and 15 minutes.

Final Exam (30%). There will be a cumulative two-hour final exam, which will be **from 7 to 9 pm on Friday, 18 May 2012**. It is up to you to make sure that travel plans do not interfere with your ability to take the final exam. The exam will be open-book and open-notes.

Exam Absences

If you have documented, verifiable and serious reason to miss an exam, you must provide the proof to me within 48 hours of the exam, or you will receive a zero for it. Depending on the severity of your reason for absence, you will either take a make-up exam or the weight of the missed midterm will be shifted to the final exam. An excused absence for the final exam will be made up for according to the policy of the college.

Honor Code

The College requires that students sign an "Honor Code" for all assignments. Presenting the work of someone else as your own is a serious affront to the other students in the course and to me. On each assignment and policy brief that you submit, you must write "I have adhered to the Honor Code in this assignment" and sign your name in assent. (If you hand in an assignment with a classmate, you must both write and sign the affirmation.)

Students with Disabilities

If you have specific physical, psychiatric or learning disabilities and require accommodations, please let me know early in the semester so that your learning needs may be appropriately met. You will need to provide documentation of your disability to the Office of Disability Services in Peters G-27/G-28.

Tentative Course Outline & Readings

All articles and non-textbook excerpts listed below will be available on Blackboard. Caveat: The course outline and the readings are subject to change. You will not be asked to read everything in the textbook chapters, just what is assigned and is relevant to lecture material.

Week 1 (7, 9 Feb.)

- Public economics; Equilibrium & Efficiency; Review of theoretical and mathematical concepts
- Textbook, Chapters 1 and 2.

Week 2 (14, 16 Feb.)

- Public goods
- Textbook, Chapter 5.
- Paul Samuelson, "The pure theory of public expenditures," *Review of Economics and Statistics*, 1954, 387-389.
- **Assignment 1 assigned 14th.**

Week 3 (21, 23 Feb.)

- Externalities
- Textbook, Chapter 7.
- Ronald Coase, "The Problem of Social Cost," *Journal of Law and Economics*, 1960, 1-44.
- **Assignment 1 due 23rd.**

Week 4 (28 Feb., 1 Mar.)

- Public choice: Theories of the public sector, bureaucracy

- Textbook, Chapters 3 and 4.
- Lars Feld & John Matsusaka, "Budget Referendums and Government Spending: Evidence from Swiss Cantons," *Journal of Public Economics*, 2000, 2703-2724.
- **Assignment 2 assigned 28th.**

Week 5 (6, 8 Mar.)

- Public choice: Voting
- Textbook, Chapter 10.
- David Lee, Enrico Moretti and Matthew Butler, "Do Voters Affect or Elect Policies? Evidence from the U.S. House," 2004, 807-859.
- **Assignment 2 due 8th.**

Week 6 (13, 15 Mar.)

- Social security
- Textbook, Chapter 20.
- CBO Memorandum, "Social Security and Private Saving: A Review of the Empirical Evidence," 1998.
- **Assignment 3 assigned 13th.**

Week 7 (20, 22 Mar.)

- Education
- Not in textbook.
- David Figlio, Thomas Husted and Lawrence Kenny, "Political economy of the inequality in school spending," *Journal of Urban Economics*, 2004, 338-349.
- **Assignment 3 due 20th.**
- **Midterm exam is 22nd.**

SPRING BREAK (27, 29 Mar.)

Week 8 (3, 5 Apr.)

- Inequality and poverty
- Textbook, Chapter 13.
- Also, Chapter 13 from Rosen & Gayer's book will be covered, and this will be available on Blackboard.
- **Policy brief 1 due 5th.**

Week 9 (10, 12 Apr.)

- Commodity taxation and optimal taxation
- Textbook, Chapter 14.
- Empirical reading TBA.

- **Assignment 4 assigned 10th.**

Week 10 (17, 19 Apr.)

- Personal income tax
- Textbook, Chapter 15.
- Empirical reading TBA.
- **Assignment 4 due 19th.**

Week 11 (24, 26 Apr.)

- Tax evasion and enforcement
- Textbook, Chapter 16.
- Marsha Blumenthal, Charles Christian and Joel Slemrod, "Taxpayer Response to an Increased Probability of Audit: Evidence from a Controlled Experiment in Minnesota," *Journal of Public Economics*, 2001, 455-483.
- **Assignment 5 assigned 24th.**

Week 12 (1, 3 May)

- Club goods & local public finance
- Textbook, Chapter 6
- Charles Tiebout, "A pure theory of local expenditure," *Journal of Political Economy*, 1956, 416-424.
- Paul Rhode and K Coleman Strumpf, "Assessing the importance of Tiebout sorting: local heterogeneity from 1850 to 1990," *American Economic Review*, 2003, 1648-1677
- **Assignment 5 due 3rd.**

Week 13 (8, 10 May)

- Fiscal federalism and fiscal competition
- Textbook, Chapter 18
- James Hines and Richard Thaler, "The Flypaper Effect," *Journal of Economic Perspectives*, 1995, 217-26.
- **Policy brief 2 due 10th.**

FINAL EXAM: Friday, 18 May, 7 – 9 pm.