OVERVIEW

This two-credit seminar surveys the field of Public Finance, which explores the rationales for and consequences of government intervention in markets. The seminar begins with a review of welfare economics, the conditions associated with an “unfettered” market achieving an efficient allocation of resources, and situations in which a free market may fail to achieve efficiency. With this background, we study the activities of the government in the market economy of the United States. We examine how decisions are made about government interventions in markets, what kinds of expenditure activities the U.S. government pursues, how those activities are financed through revenue collection, and the effects of both expenditure and taxation programs on individual behavior and well-being.

The seminar not only covers the theoretical foundations of Public Finance but also integrates institutional background and empirical evidence into discussions of many important and relevant policies. A primary goal is for students to understand the economic principles that determine optimal government intervention in market economies and to be prepared to apply those principles to current policy debates.

PREREQUISITES AND RECOMMENDED COURSES

The prerequisite courses are Intermediate Microeconomics (Ec 11) and Introduction to Econometrics (Ec 31) or its equivalent. History has shown that students who have performed well in these two courses have been successful in this seminar and have enjoyed the assignments. The empirical content of the seminar is such that Econometrics (Ec 35) or some background in statistical analysis is advantageous. Students who feel concerned about the empirical readings should see me to talk about additional preparation or support materials. If you are struggling to understand econometric methods used in the journal articles we read (after reading through the same article several times and referring to sources like Wooldridge and your classmates), please do not hesitate to discuss this with me.

GRADING

Grades for the seminar will be determined as follows:

- General participation and preparedness 25%
- Article review presentations (2) 25%
- Seminar paper and presentation 25%
- Final exam 25%

POLICIES

Late assignments – In the absence of an unexpected illness (documented by Worth), I will not accept late assignments unless requested by the Dean’s office to do so.

Academic Dishonesty – Acts of academic dishonesty will be reported to the Dean’s office and punished in accordance with College policy. Please see me if you have questions about what constitutes plagiarism or how to avoid plagiarism in your writing.
TEXTS AND OTHER SOURCES

REQUIRED TEXT


USEFUL TEXTS (IN HONORS RESERVES IN MCCABE)


OTHER USEFUL RESOURCES

Congressional Budget Office (www.cbo.gov)
Brookings Institution (www.brookings.edu)
Urban Institute (www.urban.org)
Economic Policy Institute (www.epi.org)
Center on Budget and Policy Priorities (www.cbpp.org)
American Enterprise Institute (www.aci.org)

RELEVANT JOURNALS (AND ABBREVIATIONS)

*Journal of Public Economics* (JPubE)
*National Tax Journal* (NTJ)
*Journal of Economic Perspectives* (JEP)
*Journal of Political Economy* (JPE)
*American Economic Review* (AER)
*Journal of Economic Literature* (JEL)
*Journal of Health Economics* (JHE)
*Economic Journal* (EJ)
*Economic Inquiry* (EI)
REQUIREMENTS AND STRUCTURE OF SEMINAR MEETINGS

1. There will be problems and discussion questions assigned each week from Gruber, previous honors exams, and other sources. The problem set for a certain date is to be completed before that date’s class meeting. We will generally begin each meeting with a brief introduction to the theory underlying that day’s topic. Sometimes this introduction will involve a mini-lecture from me, but often we will use your problem sets to guide this part of our discussion. Each student should be prepared to present his/her work at the board, and students will be chosen at random to do so. While I encourage you to work in pairs or groups on these problems, each student should write up answers individually, as you will be evaluated on your ability to present your answers clearly and answer follow-up questions. No free-riding!

2A. There will be additional outside readings for each seminar meeting, on which student presentations will be based. (These are indicated with asterisks under the date of each seminar meeting on the reading list below.) Students are expected to have done all of the readings and to be prepared to ask questions and engage in a lively discussion of the readings. Most of these readings are difficult, either theoretically or methodologically. At a very basic level, you should think about these questions as you read:

- What question does the paper ask? How does this fit in with the economic theory/models you have learned?
- What data are used? What are the key (independent and dependent) variables?
- What is the empirical strategy, i.e., what is the source of variation in “treatment”? Do you believe this variation is plausibly exogenous with respect to the outcome of interest?
- What are the results and their interpretation? Do the results seem plausible? Are they important? What are their policy implications?
- What do you learn from the paper? Does it give you other ideas? Are there things about the paper that you didn’t like?

2B. In lieu of writing seminar papers, students will (in teams of 2) present the readings for their classmates as a way of exploring the public economics literature. The suggested format for these presentations is PowerPoint or something similar. Presentations should last approximately 30 minutes, and you should spend approximately two-thirds of your time summarizing and describing the articles. That is, you should plan to devote 10 minutes to offering your own comments and critiques of the study, suggesting avenues for future research, and taking questions from your classmates. A good presentation should lead naturally into further class discussion, and presenters will be evaluated not only on the content of their presentation but on the extent to which they are able to facilitate this. Non-presenters will be evaluated on their participation and preparedness to engage in such discussion.

3. Each student will write a term paper of approximately 15-20 pages on a topic in public economics. This paper will take the form of a critical review of the literature or an empirical analysis on a research question of interest to you. A list of possible topics will be provided, and topics will be assigned on a first-come, first-serve basis. If you have a topic in mind that is not on the list, you should discuss it with me and get my approval of the topic. More information on the details of the term paper assignment will be distributed in the next two weeks.

The deadlines for the paper are as follows:

- **Sunday, Feb. 12**: 2-4 sentence description(s) of proposed topic(s) or topic areas
- **Friday, March 3**: Statement of proposed research and preliminary bibliography
- **Monday, April 3**: Annotated outline
- **Monday, April 24**: Almost-final draft (email to classmates and me by midnight)
- **Thursday, April 27**: Presentations
- **Sunday, April 30**: Final draft due by midnight
### COURSE OUTLINE

<table>
<thead>
<tr>
<th>DATE</th>
<th>Topic</th>
<th>Assignment due</th>
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| January 19 | Introduction and Review: Welfare Economics and Efficiency Conditions | Introductions
|            |                                                                      | Get organized                                                      |
| January 26 | Methodology and Empirical Tools                                       | Problem set #1                                                     |
| February 2 | Externalities                                                        | Problem set #2
|            |                                                                      | * External Benefits of Education                                   |
| February 9 | Public Goods                                                         | Problem set #3
|            |                                                                      | * Using Market Prices to Infer the Value of Public Goods           |
| February 16| Cost-benefit Analysis
|            | Political Economy                                                    | Problem set #4
|            |                                                                      | * Evidence on Median Voter Theorem                                 |
| February 23| Fiscal Federalism
|            | Education                                                           | Problem set #5
|            |                                                                      | * School Choice and Student Performance                            |
| March 2    | Social Insurance                                                     | Problem set #6
|            |                                                                      | * UI, Consumption Smoothing & Moral Hazard                         |
| March 9    | **SPRING BREAK**                                                     |                                                                    |
| March 16   | Social Security                                                      | Problem Set #7
|            |                                                                      | * Short response papers and discussion                             |
| March 23   | Health Insurance, Medicare, Medicaid                                 | Problem set #8
|            |                                                                      | * Effects of Public Insurance on Health                            |
| March 30   | Welfare, Income distribution, EITC                                   | Problem set #9
|            |                                                                      | * Short response papers and discussion                             |
| April 6    | Tax Incidence and Efficiency                                          | Problem set #10
|            |                                                                      | * Tax Salience                                                     |
| April 13   | Behavioral Effects of Taxation                                       | Problem set #11
|            |                                                                      | * Tax Rates and Taxable Income                                     |
| April 20   | Corporate Taxation
|            | Tax Reform                                                           | Problem set #12
|            |                                                                      | * Short response papers and discussion                             |
| April 27   | Presentations of Papers                                              | Rough draft due by Monday, Apr. 24 (10 p.m.)
|            |                                                                      | Final draft due by Sunday, Apr. 30 (10 p.m.)                       |
READING LIST AND OVERVIEW

MEETING 1 – January 19th
INTRODUCTION AND REVIEW:
WELFARE ECONOMICS AND EFFICIENCY CONDITIONS

Gruber 1, 2, 4
Rosen 3

Snack sign-ups
Presentation sign-ups

MEETING 2 – January 26th
EMPIRICAL TOOLS AND METHODOLOGY

Gruber 3


MEETING 3 – February 2nd
EXTERNALITIES

Gruber 5, 6


MEETING 4 – February 9th
PUBLIC GOODS

Gruber 7
Hindriks and Myles, Chapter 5 (sections 5.1 through 5.4 and 5.6)


MEETING 5 – February 16th
COST-BENEFIT ANALYSIS AND POLITICAL ECONOMY

Gruber 8, 9


MEETING 6 – February 23rd
FISCAL FEDERALISM AND EDUCATION

Gruber 10, 11


MEETING 7 – March 2\textsuperscript{nd}
SOCIAL INSURANCE

Gruber 12, 14

\textit{American Economic Review}, 87 (1), 192-205.


MEETING 8 – March 16\textsuperscript{th}
SOCIAL SECURITY

Gruber 13
Supplemental textbook chapter(s), available on Moodle
\textit{The Economists’ Voice}, 2(1), Article 8.

MEETING 9 – March 23\textsuperscript{nd}
HEALTH INSURANCE, MEDICARE, MEDICAID

Gruber 15, 16


MEETING 10 – March 30\textsuperscript{th}
INCOME DISTRIBUTION, WELFARE, EITC

Gruber 17
Supplemental readings on Moodle.
MEETING 11 – April 6th
TAX INCIDENCE AND EFFICIENCY

Gruber 18, 19, 20


MEETING 12 – April 13th
BEHAVIORAL EFFECTS OF TAXATION

Gruber 21, 22, 23


MEETING 13 – April 20th
CORPORATE TAXATION
TAX REFORM

Gruber 24, 25

MEETING 14 – April 27th
PAPER PRESENTATIONS

DINNER AT MY HOUSE – To be scheduled; will take place in very early May