

Public Economics-W: Eco 321
Fall 2010
Unique Number: 33415

Instructor: Dr. Helen Schneider
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Class Time: MWF 1:00-2:00 pm
Class Location: UTC 3.132
Office Hours: Wednesdays, 10-12 noon

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TA Office Hours: Tuesdays 1-3 pm,
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INTRODUCTION

Course Synopsis: In this course you will learn to apply microeconomic analysis to study the role of the public sector in the economy. Topics that we will cover include public goods and externalities, education, income redistribution, the workings of social security, welfare, political economy, cost-benefit analysis, and taxation.

Although this field is sometimes called “public finance,” it is worth noting that this has nothing to do with stocks, bonds, or any other “finance” topic. It is also worth noting that this is a *microeconomics* course. We will not study the short-run macroeconomic effects of taxation and government spending as you may have done in 304L.

Prerequisites: Intermediate Microeconomics (420K) is an essential prerequisite for this course. If it’s been a while since you took intermediate microeconomics, the textbook provides a review in the appendix.

COURSE MATERIALS

Required Text: Harvey S. Rosen and Ted Gayer. *Public Finance*, 2010, 9th Edition.

Additional Reading: Additional required and optional readings from sources other than the textbook will be posted on the course website (see below).

Website: Course material will be on the university’s Blackboard system. In particular, homework assignments will not be handed out in class; they will be posted on Blackboard for students to download. This class will also use the Grade Center feature on Blackboard so that students can keep track of their scores on assignments and exams.

POLICY ON STUDENTS WITH DISABILITIES

The University of Texas at Austin provides upon receipt appropriate academic adjustments for qualified students with disabilities. For more information, contact the Office of the Dean of Students—Services for Students with Disabilities, 471-6259.

SCHOLASTIC DISHONESTY POLICY

Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since such dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced.

COURSE REQUIREMENTS:

Policy Paper. This course is a substantial writing component for undergraduates. Thus, a significant paper is due at the end of the semester. For us to discuss how to do that research, you will have to submit a proposal, first draft, and final paper. You must choose a proposed or legislated policy to write about. The paper must describe the policy and provide an economic analysis that draws upon theoretical and empirical models.

I would like you to start thinking early of a research topic and to write a proposal. Feel free to talk to me about your topic, your sources and approaches you can take in doing your research. Due dates along the way will help guarantee progress:

Assignment	Due Date	Approx. Length	% of Grade
Proposal	October 13	3-4 pages	10
First Draft (2 copies)	October 27	7-9 pages	15
Peer Review	November 10	2-3 pages	5
Final Paper	November 24	9-12 pages	20

There are several sources you could use to find a topic. One is simply to follow the policy debates in the newspapers and magazines. Second is to look at the policies discussed in the class. A third way is to browse through recent issues of economic policy journals, or the web pages of research and policy institutions.

The **proposal** should state the question you want to address, discuss the importance of your study (i.e. why it is an important public policy issue) and it should include some literature review. The **first draft** should include everything, with theoretical and empirical models, conclusions and policy implications. Illustrate your analysis with a graphical presentation if appropriate. If your graphs are not incorporated into the text of your paper, please provide a clear connection between graphs and text. You will each submit two copies of your draft: one is for another class member to read and make suggestions, and the other is for me to read, grade and make suggestions. You will also write a **peer review**. Each of you will then use the two sets of suggestions to revise your **final paper**.

Note that the total for all writing assignments is 50% of your grade. Each is due *at the beginning* of class on the due date.

Tests. There will be one midterm and a comprehensive final exam. The midterm will be on **October 4** in class. Final exam will be scheduled by the registrar's office. If you have an emergency that prevents you from taking an exam, I need to be notified by e-mail or phone no later than the day of the exam.

Problem Sets. Four problem sets will count towards your final grade. All assignments may be obtained at the class web page. Collaboration among students in working out problem sets is

encouraged, but you must write up your own homework. Questions very similar to the problem sets will appear on the exams. It behooves you to make sure that you understand and can present the solutions to problems on your own in spite of working on the material with one another. Turning in identical problem sets will result in a zero for both parties. *Problem Sets are due at the beginning of class on their due date. Problem sets WILL NOT be accepted late. This is an absolute policy. Please do not ask for extensions.* Answer keys will be posted after the due date.

Grading: Writing Assignments = 50%; Total Problem Sets = 5%; Midterm = 20%; Final = 25%. Class participation may affect grades on the margin.

A letter grade will be assigned based on your weighted course average score and your performance relative to the rest of the class. Letter grades include A, A-, B+, ... , D, D-, F.

READINGS AND COURSE OUTLINE

Introduction to the Public Sector and Fundamentals of Welfare Economics	
Wednesday, August 25	Introductions and Syllabus Rosen, Chapter 1 Optional: PJ O'Rourke, <i>All Guns, No Butter</i>
Friday, August 27	Tools of Positive Analysis Chapter 2
Monday, August 30	Tools of Normative Analysis Chapters 3
Wednesday, September 1	Tools of Normative Analysis: Examples of Positive and Normative Analysis Miron and Zweibel, "The Economic Case Against Drug Prohibition," <i>Journal of Economic Perspectives</i> 9(4): 175-192.
Friday, September 3	Public Goods Chapter 4
Analysis of Public Expenditure	
Monday, September 6	Labor Day Holiday
Wednesday, September 8	Public Goods Chapter 4 Problem Set I Posted
Friday, September 10	Externalities and the Environment Chapter 5
Monday, September 13	Pigouvian Taxes Gruber, "The Economics of Tobacco Regulation," <i>Health Affairs</i> 2002, 21(2): 146-162.
Wednesday, September 15 Problem Set I Due	Externalities and the Environment Chapter 5
Friday, September 17	Political Economy, Chapter 6
Monday, September 20	Political Economy and Public Goods Chapter 6
Wednesday, September 22	Education Chapter 7 Problem Set II posted
Friday, September 24	Education Hanushek, "Assessing the Effects of School Resources on Student

	Performance: An Update,” <i>Educational Evaluation and Policy Analysis</i> 19(2): 141-164.
Monday, September 27	Social Security Chapter 11
Wednesday, September 29 Problem Set II Due	Social Security Chapter 11
Friday, October 1	Review
Monday, October 4	Midterm
Wednesday, October 6	Paper discussion
Friday, October 8	Income Redistribution Chapter 12
Monday, October 11	Expenditure Programs for the Poor Chapter 13
Wednesday, October 13 Proposal Due	Welfare Reform Blank “Evaluating Welfare Reform in the United States,” <i>Journal of Economic Literature</i> 2002, 1105-1166 Problem Set III Posted
Friday, October 15	Health Care Chapter 9
Monday, October 18	Health Care Pauly “The Economics of Moral Hazard: Comment.” <i>The American Economic Review</i> 1968, 531-537.
Wednesday, October 20 Problem Set III Due	Government and the Market for Health Care Chapter 10
Friday, October 22	Private and Public Cost-Benefit Analysis Chapter 8, pp. 152-162
Monday, October 25	Valuing Intangibles Kenkel “Using Estimates of the Value of a Statistical Life in Evaluating Regulatory Effects,” http://www.ers.usda.gov/publications/mp1570d.pdf
Wednesday, October 27 First Draft Due	Applications of Cost-Benefit Analysis Chapter 8, pp. 162-175
Friday, October 29	Catch-up and Review
A Framework for Tax Analysis	
Monday, November 1	Introduction to Taxation. Personal Income Tax Chapter 14, pp. 302-306; Chapter 17
Wednesday, November 3	Taxation and Income Distribution Chapter 14, pp. 307-319
Friday, November 5	Taxation and Income Distribution Chapter 14, pp. 307-319
Monday, November 8	General Equilibrium Tax Incidence Chapter 14, pp. 319-327
Wednesday, November 10 Peer Review Due	Taxation and Efficiency Chapter 15
Friday, November 12	Efficient and Equitable Taxation Chapter 16
Monday, November 15	Taxes on Labor Supply Chapter 18, pp. 415-424

Wednesday, November 17	Taxes on Savings, Chapter 18, pp. 424-436
Friday, November 19	The Corporation Tax Chapter 19
Monday, November 22	Taxes on Consumption and Wealth Chapter 21
Wednesday, November 24 <i>Final Paper Due</i>	Taxes on Consumption and Wealth Chapter 21 <i>Problem Set IV Posted</i>
Friday, November 26	Thanksgiving Holiday
Monday, November 29	Multigovernment Public Finance Chapter 22
Wednesday, December 1 <i>Problem Set IV Due</i>	Catch-up and Review
Friday, December 3	Review
	FINAL EXAM