

Public Finance

Instructor: Professor Roger Congleton

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Office Hours: Tuesday 1:45-3:45, Thursdays 1:15-2:45, and by appointment

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Required Text:

Hillman, A. L. (2009/3) Public Finance and Public Policy, Responsibilities and Limitations of Government. (second edition) Cambridge: Cambridge University Press. (Either the first [AH1] or second edition [AH2] is fine. See the website for the AH1 readings.)

Grades:	2 Exams	70%
	1 Final Term Paper (6-8 pages)	30%
	Marginal extra credit for class participation	(up to 5% bonus)

Public economics is the study of government policies. It analyzes the effects of those policies on economic activities and the political processes by which those policies come to be in place. Public Finance studies the subset of public policies that are fiscal in nature. These include government taxation, debt, and expenditures. Modern democratic governments directly control more than a third of their gross national products and influence much of the rest through their fiscal and regulatory policies. The aim of this course is to provide students with the microeconomic tools to understand the impacts of those fiscal policies. Models and concepts from microeconomics are also used to analyze the political pressures that generate a nation's fiscal policies. The course is "lecture driven" in that essentially all relevant material is covered in class and is available on the class website.

TENTATIVE COURSE OUTLINE

<u>Dates</u>	<u>Topics</u>	<u>Readings</u>
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I. The Economic Impacts of Taxation and Expenditures

8/31	Introduction, Positive and Normative Analysis	AH2: 1
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Overview of fiscal policy in the United States and OECD countries: growth of tax and expenditures, composition of, increasing centralization. Positive and normative analysis: the Pareto principles, Cost-Benefit Analysis Rational choice as an application of cost-benefit analysis

9/7	Review of Economic Tools and Principles of Tax Analysis	
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The Net Benefit maximizing model and the competitive theory of demand and supply, consumer surplus and profit

9/14	Principles of Tax Analysis (continued)	AH2: 2:4.1, 9.1
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Impact of taxes on market prices and output; deadweight loss in the long and short run; neutral taxes and excess burden; Ramsay taxation, progressive and proportional

income taxes and the labor-leisure tradeoff. Applications: property taxes, excise taxes, head taxes, and income taxes.

9/23 **Principles of Expenditure Analysis** AH2: 2, 5.1

Impacts of subsidies on market equilibria, deadweight losses in the long and short run, conditional marginal and lump sum subsidies. Applications: farm subsidies, food stamps, rent subsidies, public education, and unemployment insurance.

10/5 **Discussion and Review for the First Exam** Study Guide

10/7 **FIRST EXAMINATION**

10/14 **First Exams Discussed and Returned**

II. The Politics of Public Finance: Public Good, Externalities, and Politics

10/19 **Public Goods and Externalities** AH2: 3.1, 5.1, 5.2, 5.3

Public and Private Goods, the free rider problem; Pareto optimal supply of public goods, Samuelsonian, and Lindahl Taxes; Externalities and Market Failures, Pigovian taxes. Applications: national defense, clean air and water, highways, welfare

10/28 **The Political Demand for Public Goods (and Taxes)** AH2: 6.1, 6.2

The median voter model and the demand for public services

10/21 **Interest Groups and the Politics of Redistribution** AH: 6.1, 6.2, 6.3, 5.1, 5B

Interest group politics: fiscal impacts and the private demand for redistribution; the demand for transfers and the cost of rent seeking. Applications: Farm Subsidies, Welfare, Social Security, and Health Care

11/4 **Fiscal Federalism: Relationships between Governments** AH2: 2.1, 2.2, 2.3

International fiscal competition and free trade; Intranational competition (the Tiebout Model). Applications: capital flight, federalism, fiscal federalism.

11/11 **Applications to Contemporary Public Finance Issues** AH2: 9.1, 9.2

Tax Reform, Decentralization, International Taxation and Growth, Future / Recent Tax Reforms (CBO analysis), Analysis of Major Tax Reforms (US Treasury White Paper, 2002, O'Neill) History of Taxation in the US

11/18 **Applications to Contemporary Public Finance Issues** AH2: 8.1, 8.2, 8.3

The Past, Present, and Future of Social Security and National Health Services.

12/1 **Review for second Exam** Study Guide

12/3 **SECOND EXAM** (first hour and a half / review in the last hour)

12/8 **Second Exams Discussed and Returned**

12/10 **Overview of Class**

12/14 **6-8 Page paper due on an applied public finance topic** Paper Topics

If you are a student with a disability and you need academic accommodations, please see me and contact the disability Resource Center (DRC) at 703-993-2474. All academic accommodations must be arranged through that office.