

**Public Economics**

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**Suggested Texts:**

Holcombe, R. G. (2005) *Public Sector Economics: The Role of Government in the American Economy*. NY: Prentice Hall.

Hillman, A. L. (2009/03) *Public Finance and Public Policy, Responsibilities and Limitations of Government*. Cambridge: Cambridge University Press

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 an increasingly large area of study. It is the study of government policies. It analyzes the effects of policies on economic activities and the political processes by which those policies come to be in place. Contemporary democratic governments directly control more than a third of gross national product and influence much of the rest through their fiscal and regulatory policies. For the most part, this course focuses on the sub-field of public economics called public finance. Public Finance studies the public policies that are fiscal in nature. These include government taxation, debt, subsidies, and expenditures. (That is all that time allows us to carefully explore.)

The aim of this course is to provide students with the conceptual and geometric tools to think systematically about the impacts of tax and expenditure policies, and to be able to explain the origins of those policies. Models and concepts from microeconomics are used to analyze both the effects of policies on markets and 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 most is available on the class website.

**TENTATIVE COURSE OUTLINE**

<u>Dates</u>	<u>Topics</u>	<u>Readings</u>
I. The Economic Impacts of Taxation and Expenditures		
8/16	<b>Introduction, Positive and Normative Analysis</b>	<b>H: 1, 2 / AH: 1</b>
	Why Study Public Economics. Increasing Importance of public economics. Overview of fiscal policy in the United States and OECD countries: growth of tax and expenditures, composition of, increasing centralization. Methodology of Public	

Economics: Positive and normative analysis: Cost-Benefit Analysis, the Pareto principles. The Rational Choice Approach to Social Science.

**8/21      The Rational Choice Approach: Review of Economic Tools      AH: S1A, S1B and 1.1**

The Net Benefit maximizing model as the basis of demand and supply curves, market equilibrium, consumer surplus and profit.

**8/28      Principles and Effects of Taxation      H: 10-13 / AH: 4.1, 4.2 and 9.1**

Impact of excise taxes on market prices and output; deadweight loss in the long and short run; neutral taxes and excess burden. Normative Tax Theory: Ramsay taxation, progressive and proportional income taxes and the labor-leisure tradeoff.

Applications: property taxes, excise taxes, head taxes, and income taxes.

**9/11      Principles and Effects of Subsidization      H: 5,8 / AH: 2.1, 5.2**

Impacts of subsidies on market equilibria, deadweight losses in the long and short run, conditional marginal and lump sum subsidies. Normative Subsidy Theory: minimizing deadweight losses, Equity Issues. Applications: farm subsidies, food stamps, rent subsidies, public education, health care, and unemployment insurance.

**9/18      Externalities Effects, Problems, and Tax Solutions      H: 4, 5 / AH: 3.1, 5.1, 5.2**

Definition of an Externality, Effects on the normative properties of market equilibria. The Pigovian Tax and Subsidy Solutions. Alternatives to the Pigovian solution.

**9/25    Discussion and Review for the First Exam      Study Guide 1**

**9/27      FIRST EXAMINATION**

**10 /1    Exams Returned and Reviewed**

**II. A Justification for Government: Public Good, Externalities, and Collective Solutions**

**10/4      Public Goods and Externalities      H: 4, 5 / AH: 1.1, 3.1, 3.3, 5.1, 5.2, 10**

Public, Club, and Private Goods, the free rider problem; Pareto optimal supply of public goods, Samuelsonian, and Lindahl Taxes; Externalities and Market Failures as another justification for collective action. Applications: national defense, law and order, clean air and water, highways, welfare

**III. Democratic Governance and Public Policy**

**10/23      The Electoral Demand for Public Goods (and Taxes)      H: 7 / AH: 6.1, 6.2, 6.3**

The median voter model and the demand for public services and taxation. Rational Ignorance and Fiscal Illusion. (The Jury Theorem if we have time)

**11/1      Interest Groups and the Politics of Redistribution      AH: 2.1, 2.2, 6.3, 5.1, 5B**

Interest group politics: fiscal impacts and the private demand for redistribution; the demand for local services and privileges, the social cost of rent seeking. Applications:

Elections with Imperfectly Informed Voters, Farm Subsidies, Tax Systems and Loop Holes, Health Care, and Environmental Policies

11/8      **Fiscal Federalism: Relationships between Governments**      **H:24 / AH: 9.1**

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

11/13      **The Rise of the Welfare State**      **H: 20, 22**  
**AH: 8.1, 8.2, 7.1, 10.1**

The demand for social insurance and transfers. Differential pricing from public and private supplies of each. Rapid growth of these programs between 1960 and 1990. Effects on the real economy. Future Problems.

11/17      **Tax and Debt Finance**      **H: 17 / AH: 9.1, 9.2, 4.2, 4.3**

Tax Reform, Decentralization, International Taxation and Growth, Future / Recent Tax Reforms. Deficits, The Past, Present, and Future of National Debt, Future problems with funding Social Security, and National Health Services.

**Study Guide II**

11/27      **Forest from the Tree's Lecture / Paper Workshop**

11/29      **Review for Second Exam**

12 / 4      **Second Examination**

12/6      **Overview of Course and Review of Exam**

12/12      **6-8 Page paper due on an applied public finance topic (via e-mail) Paper Topics**

*If you are a student with a disability and you need academic accommodations, please see me and contact the disability Resource Center*