

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

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|---------|---|------------------|
| 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. Modern 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 the course focuses on the subfield 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.

The aim of this course is to provide students with the microeconomic tools to understand the impacts of tax and expenditure policies, and to be able to explain the origins of those policies. Models and concepts from microeconomics are also 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 | | |
| 8/18 | Introduction, Positive and Normative Analysis | H: 1, 2 / AH: 1 |
| | 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 | |

8/23 **Review of Economic Tools and Introduction to Tax Analysis** AH: 2E, 7.2 and 7.1

The Net Benefit maximizing model and the competitive theory of demand and supply, consumer surplus and profit, affect of excise taxes

9/1 **Principles of Tax Analysis (continued)** H: 10-13 / AH: 2E, 7.2 and 7.1

Impact of excise 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.

9/15 **Principles of Expenditure Analysis** 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. Applications: farm subsidies, food stamps, rent subsidies, public education, and unemployment insurance.

10/4 **Discussion and Review for the First Exam** Study Guide 1

10/6 **FIRST EXAMINATION**

10 /11 **Exams Returned and Reviewed**

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

10/13 **Public Goods and Externalities** H: 4, 5 / AH: 2.1, 2.2, 4.1, 4A, 4C

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

10/27 **The Electoral Demand for Public Goods (and Taxes)** H: 7 / AH: 3.1, 3.2, 4.2

The median voter model and the demand for public services

11/3 **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

11/10 **Fiscal Federalism: Relationships between Governments** H:24 / AH: 9.1

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

11/15 **Applications to Contemporary Public Finance Issues** H: 17 / AH: 7A, 7B, 7C

Tax Reform, Decentralization, International Taxation and Growth, Future / Recent Tax Reforms (CBO analysis), Paul Ryan, winning Presidential candidate.

11/17 **Applications to Contemporary Public Finance Issues** **H: 20, 22**
AH: 5.1, 5B, 10.1, 10.B

Deficits, The Past, Present, and Future of National Debt, Future problems with
funding Social Security, and National Health Services.

Study Guide II

11/29 **Review for Second Exam**

12 / 1 **Second Examination**

12 / 6 **Review of Second Exam / Paper Workshop**

12/8 **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