

### Suggested Paper Topics

The purpose of the term paper is to demonstrate one's ability to use the tools and concepts developed during the semester to analyze a contemporary public finance issue or controversy. You may write on any topic in public finance, but you must choose a topic that lends itself to analysis using the tools and concepts developed in class. Grades are based upon the quality of the analysis (depth and cleverness with which you apply the tools). Style counts--in so far as good reasoning is best revealed by clear well-organized prose, but do not simply write an "editorial." Both normative and positive analysis should be grounded in facts and careful analysis.

All papers should be double spaced and five to seven pages in length, as necessary. Your name, student number, and e-mail address should appear on the first page of the paper. Complete references should appear in a bibliography at the end of the paper, including any web references used. Figures should appear in the document body, but may be included at the end if this is easier with your software.

Some ideas for paper topics include:

#### A. Tax or Expenditure Incidence

#### B. Take some real or hypothetical tax or expenditure program and perform a detailed analysis of the incidence of the costs or benefits of that program in the long and short run.

- i. Note any spillover effects on other markets or individuals.
- ii. Discuss briefly the politics behind the program.
  - Examples include: food stamps, social security, flood insurance, gasoline taxes, farm subsidies, property taxes, energy taxes, etc.
  - (This semester, it seems clear that a broad range of such policies will be adopted to address problems associated with health care. Analyze one or more of these policies.)

#### C. Tax and/or Expenditure Reform

- i. Choose a proposed tax or expenditure reform and analyze its economic effects, its political effects, and its normative pro's and con's.
- ii. President Bush and many republicans in the Congress favor "privatizing" a small part of the Social Security Program.
  - a. How would this work? Will "we" borrow to do so? How much?
  - b. What would be the economic effects of this reform in the short run and long run?
  - c. Have other countries adopted similar reforms?
- iii. Many tax reformers are interested in tax simplification, others are interested in neutrality, still others want to encourage or discourage various private decisions.
  - a. What are specific proposals or what ideas are being discussed?
  - b. Choose one and analyze the reform in some detail. How would that tax reform work?
  - c. What would economic effects would such tax reforms have?
  - d. What political factors make this proposed reform likely or unlikely to be adopted?

#### D. Public Goods and Externalities

- i. Analyze some particular public good, externality, or free rider problem, and discuss the various public policies that can be used to solve or reduce the problem.
- ii. Which of these reforms are most politically feasible?
- iii. (Examples include such problems as fire and police protection, highway construction, environmental policy, bicycle paths, public education, etc.)

#### E. Fiscal Illusion

- i. Discuss the effects that fiscal illusion can have on tax and expenditure programs.
- ii. Choose a particular tax or public service and explain why consumers might have systematically biased estimates of the program's benefits or costs.

- iii. Discuss policies, such as tax simplification, eliminating withholding, the use of user fees etc. that might reduce fiscal illusion.
- iv. To what extent might politicians attempt to use fiscal illusion (in general or within a specific policy area) to promote their own pecuniary and policy interests?

## **F. Fiscal Federalism**

- i. Analyze an intergovernmental grant program (education matching grants, revenue sharing, welfare, Medicaid, transportation grants, homeland security grants, etc.).
  - a. Explain how the program works and provide a short history of its development.
  - b. Does this program address an "inter jurisdictional" externality problem?
  - c. Is there reason to believe that this program exhibits a "fly paper effect?" (That money "sticks" where it is aimed.)
  - d. Explain why, and, perhaps, provide some statistical evidence to support your conclusion.
- ii. Develop an economic rationale for the optimal level of fiscal decentralization, that is to say, for the division of responsibilities among local, state and federal governments.
  - a. Given this analysis, consider whether "we" are over or under centralized in some specific public policy area, for example higher education, highway construction, welfare, Medicare, etc..
  - b. Explain why your argument applies to the case of interest, and discuss how the problems, if any, might be corrected.
  - c. Are there political problems that prevent us from reaching the idea?

## **G. International Public Finance**

- i. Choose an international body (United Nations, GEF, NATO, World Trade Organization, etc., European Union) and analyze how it is funded, and the kinds of services it provides.

- ii. Does this international agency address a future international public goods or externality problem?
- iii. What are the political incentives for providing resources to the international organization of interest.

## **H. Governmental Growth**

- i. Develop an economic and political explanation, or a collection of explanations, for the rapid growth of all levels of government in this century.
- ii. What new services or taxes, if any, account for most of this growth?
- iii. Discuss political institutions (and incentives) that create a bias toward growth (if any exists). How can such incentives be reduced.

**I. This is a fairly broad range of topics, but you may also write on another public finance or public economics topic as long as you use the tools developed in class to analyze it. However, you should run your other ideas by me first to see whether they are feasible and compatible with the goals of the class.**

(Your paper is due at my office (either in physical form or via E-mail) by the end of the Final Exam period for this course.)