ECONOMICS OF THE PUBLIC SECTOR, ECON 4211-3
Department of Economics, University of Colorado,

SPRING 2001
Time: T, R: 12:30-1:45 am
Room: ECON 117

Charles de Bartolome
Office hours:
Office: Econ 202

COURSE DESCRIPTION:
This course considers the rationale for and the design of government expenditure programs and
the tax structures by which they are financed. The difference between normative prescriptions
and positive predictions is stressed.

REQUIRED TEXT:

PRE-REQUISITE:
Intermediate Microeconomics (ECON 3070).

CLASS ATTENDANCE:
Class attendance on a regular basis is expected.

EXAMPLES:
The examples (marked with an * on the attached course outline ) are an integral part of the
course. A significant part of the exams will closely follow the format of the examples.

EXAMS: As this is an advanced course, there is only one midterm. It will be held in the evening as:
Midterm: Monday, 5 March 7:00-9:00 p.m. in CHEM 142.

The final will be held as:
Final: Saturday, 5 May 2:00 - 4:00 p.m. in ECON 117.

You should bring a blue-book to each exam.

GRADE DETERMINATION:
The student's grade will be determined as: 45% Midterm, 45% Final and 10% Paper.

STUDENTS WITH SPECIAL NEEDS:
I will make all reasonable accommodations for students with documented disabilities. However,
you must notify me by Tuesday 7 February 2001 and you must provide documentation of the
disability obtained from the Disabilities Services Office located in Willard Hall, Room 322.

COURSE OUTLINE
Attached is a list of topics to be covered and likely dates.
<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Chapter</th>
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<tbody>
<tr>
<td>16, 18 Jan</td>
<td>What government should try to do</td>
<td>1</td>
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<tr>
<td></td>
<td>- organic vs. mechanistic viewpoint.</td>
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<td>Overview of U.S. government</td>
<td>2</td>
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<td></td>
<td>- government budget.</td>
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<td>Positive Economics</td>
<td>3</td>
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<td>- theory vs. econometrics.</td>
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<td>23, 25, 30 Jan</td>
<td>Private Goods</td>
<td>4</td>
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<td></td>
<td>- (Pareto) efficiency.</td>
<td>also: Appendix pp. 507-527</td>
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<td>- competitive outcome.</td>
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<td></td>
<td>- first fundamental welfare theorem.</td>
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<td></td>
<td>- second fundamental welfare theorem.</td>
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<td>* Pareto-efficient frontier.</td>
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<td>* first fundamental welfare theorem.</td>
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<td>* second fundamental welfare theorem.</td>
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<td>1, 6, 8 Feb</td>
<td>Public Goods</td>
<td>5</td>
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<td></td>
<td>- non-rivalness and non-excludability.</td>
<td>(omit Appendix)</td>
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<td>- efficient provision.</td>
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<td>- free-rider problem.</td>
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<td>- public vs. private provision.</td>
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<td>- public vs. private production.</td>
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<td>* public goods 1.</td>
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<td>* public goods 2.</td>
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<td>* public provision of private goods.</td>
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13 Feb

Public Decision-Making:
Normative
Cost Benefit Analysis
- compensation criterion.

* Pareto-efficient, Pareto-criterion and compensation criterion.

15, 20, 22 Feb

Public Decision-Making
Positive
Informed voters:
- majority voting - median voter theorem.
- cycling.
- Arrow impossibility theorem.
Uninformed voters:
- the iron triangle.

* public choice.

27 Feb, 1 Mar

Externalities
- efficient behavior.
- Coase theorem.

* externalities: the Coase theorem.

5 Mar

MIDTERM
8, 13, 15 Mar  \textit{Externalities continued}
- (Pigou) taxes and subsidies.
- regulation.

* externalities: Pigou tax and regulation.

20, 22 Mar \textit{Income Distribution}
- process or end-state criterion.
- equity and social welfare functions.
- Utilitarianism.
- max-min and the original position.
- the shrinking pie.
- the equity vs. efficiency trade-off.

* income inequality.

3, 5 Apr \textit{Welfare Programs}
- cash vs. in-kind transfers.
- the poverty trap.
- negative income tax.

* cash and in-kind transfers.
* benefit trap.

10, 12 April \textit{How Taxes Change Behavior}
- do labor taxes reduce effort?
- do capital taxes reduce savings?

* calculating the tax rate.

17, 19 April \textit{Who Pays the Tax?}
- incidence.
- sectoral taxes.
- capitalization.

* tax incidence - partial equilibrium.
24, 26 April
You Lose More Than You Pay
- excess burden. (omit pp. 291, 292 and Appendix B)
- (if time permits) inverse elasticity rule. pp. 308-312

* excess burden - product market.
* excess burden - labor market.

1, 3 May
Public Finance: deficit or tax financing?
- Ricardo equivalence.
- Keynes view.
- overlapping-generation model.
- traditional argument.
- crowding-out of capital.

* bond or tax policy.

5 May
FINAL EXAM