COURSE DESCRIPTION:
This course considers the rationale for and design of government expenditure programs and the tax structures by which they are financed. The course describes the normative outcome achieved by a benevolent government, and the positive outcome achieved under rules of collective choice.

The course is an overview, stressing important topics and associated empirical work. It is designed to prepare MA students for taking the PhD courses ECON 8211 and ECON 8221.

REQUIRED TEXTS:

PRE-REQUISITES:
Applied Microeconomic Theory (Econ 6070).

EXAMS:
The midterm will be given in the evening on:
   Monday 5 March  7:00 - 9:00 p.m.

The final exam will be given on:
   Saturday 5 May  7:30 - 9:30 p.m.

You must bring a blue-book to each exam.

GRADING:
The grade of the student will be determined as: 45% Midterm, 45% Final, 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.
16 Jan: OVERVIEW OF U.S. GOVERNMENT

Topics:
Government budget

Readings:
Rosen, Chapters 1, 2, 3.

18, 23 Jan: PRIVATE GOODS

Topics:
(Pareto) efficiency.
Competitive outcome.
First fundamental welfare theorem.
Second fundamental welfare theorem.

Readings:
Rosen, Chapter 4.

25, 30 Jan; 1, 6, 8, 13 Feb: PUBLIC GOODS

Topics
Non-rivalness and non-excludability.
Efficient provision.
Free-rider problem.
Public vs. private provision.
Public vs. private production.

Readings

General:
Rosen, Chapter 5. (Omit Appendix).
Experiments in free-riding:

Competition and costs:

Levels of Government:

**15 Feb:** PUBLIC DECISION-MAKING: NORMATIVE

Topics:
Benefit-Cost Analysis (Kaldor Compensation Criterion).

Readings:
Rosen, Chapter 12.

**20, 22 Feb:** PUBLIC DECISION-MAKING: POSITIVE

Topics:
Informed voters:
- majority voting - median voter theorem.
Uninformed voters:
- the iron triangle.

Readings:
Rosen, Chapter 7.
Median voter hypothesis:

Cycling:

27 Feb; 1, 8, 13, 15 Mar: EXTERNALITIES

Topics:
Efficient behavior.
Coase theorem.
(Pigou) taxes and subsidies.
Regulation.

Readings:
Rosen, Chapter 6.

Coase Proposition:

General:
20 Mar: INCOME DISTRIBUTION

Topics:
Process or end-state criterion.
Equity and social welfare functions.
Utilitarianism.
Max-min and the original position.
Equity v. efficiency trade-off.

Readings:
Rosen, Chapter 8.

22 Mar; 3 Apr: HOW TAXES CHANGE BEHAVIOR

Topics:
Do labor taxes reduce effort?
Do capital taxes reduce savings?

Readings:
Rosen, Chapter 17

5, 10 April: TAX SHIFTING (TAX INCIDENCE)

Topics:
Short-run and long-run shifting of sectoral taxes.
Short-run and long-run shifting of factor taxes.

Readings:
Rosen, Chapter 13.

12, 17, 19, 24 April: EFFICIENCY LOSSES

Topics:
Compensated demand and expenditure functions.
Excess burden.
Inverse elasticity rule.

Readings:
Rosen, Chapters 14, 15.
26 Apr; 3 May: PUBLIC FINANCE: TAX OR DEFICIT FINANCING?

Topics
Ricardo equivalence.
Keynes view.
Overlapping-generation model.
Traditional argument.
Crowding-out of capital.

Readings:
Rosen, Chapter 19