COURSE DESCRIPTION:
This course is the first course in a two-course sequence. This course describes the key ideas in Public Expenditure and Taxation: public goods, externalities, public choice, excess burden, optimal taxation and tax incidence. At the end of this course, you will familiar with all the conceptual issues which must be addressed in a project in public economics. The second course is a topics course which focuses on papers closer to the “frontier of knowledge”.

The presentation of material stresses mathematical modeling. PhD students are required to have passed the Microeconomic Principles courses (Econ 7010, 7030). MA students are required to have passed the MA course in public economics (Econ 6211).

TEXTS:

EXAMS: The midterm will be held on Monday 15 October 7-9:30 pm. in Econ205.
The final exam will be held on Tuesday, 18 December 1:30 - 4:00 pm
You should bring a blue-book to the exams.

PROBLEM SETS:
Problem sets with answers will be posted on the WebCT page located at: [http://webct.colorado.edu](http://webct.colorado.edu). The problem sets are an integral part of the course. They are designed to help you use the material, and a significant part of the exams will be based on them.

STUDENTS WITH SPECIAL NEEDS: I will make all reasonable accommodations for students with documented disabilities. However, you must notify me by Monday 10 September 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.

PART 1: EXPENDITURE

27 Aug: INTRODUCTION
Starrett: Chapter 2 (pp. 8-15).

29 Aug, 5 Sept
FUNDAMENTAL WELFARE THEOREMS
Starrett, Chapter 3.

Problem Set:
Fundamental Welfare Theorems

10, 12, 17, 19 Sept
PUBLIC GOODS
Normative prescription:
Starrett, Chapter 4 (pp. 40-47).

Positive: non-rival and non-excludable:

Positive: non-rival and excludable:

Problem sets:
Efficient (First-Best) public good level.
Voluntary provision of non-rival non-excludable good.
"Market" provision of non-rival excludable good.
24, 26 Sept  EXTERNALITIES
1, 3 Oct  Normative Prescription:
Starrett, Chapter 4, pp. 40-47

Planning Mechanisms to achieve efficiency with decentralization.
Starrett, Chapter 5, pp. 65-77.

Problem sets:
Consumption externality.- using first-order conditions.
Production externality.
Externality - firm number.
Externality - decentralization using the Lagrangian

8, 10 Oct  PUBLIC CHOICE
17, 22 Oct  Full information:
Starrett, Chapter 2, pp. 15-24.

Incomplete information:

Problem sets:
Voted public goods level.
Voting with informed voters.
Cycling
PART 2: TAXATION

24, 29, 31 Oct EXCESS BURDEN AND MARGINAL COST OF FUNDS

Economic Review 71, 662-676.

Problem Sets:
Excess burden with Cobb-Douglas utility
Excess burden with linear Marshallian demand.

5, 7, 12, 14 Nov

OPTIMAL TAXATION

Indirect Taxation:
Corlett, W.J. and D.C. Hague, (1953), “Complementarity and the excess burden of

Direct Taxation:
Economics 17, 213-240.

Problem Sets:
Efficient product tax structure: Cobb-Douglas utilities.
Optimal tax: Goods complementary with leisure.
Efficient Income Tax

19, 21, 26 Nov

TAX INCIDENCE


Property tax capitalization:
model with tax-deferred assets, standard deductions, and the taxation of

Problem Set:
Harberger model of tax incidence.
PART 3: PULLING EXPENDITURE AND TAXATION TOGETHER

3 Dec  
Second-best public goods level

PART 4: CLUBS AND LOCAL GOVERNMENT

5, 10, 12 Dec  
CLUBS AND TIEBOUT MODEL
Starrett, Chapter 4, pp. 47-62.

Problem Sets:
Clubs
Tiebout model of local government