T,R: 2:00-3:15 pm

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

Pre-requisites: Intermediate Microeconomics (ECON 3070).

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

Class attendance: class attendance on a regular basis is expected.

Examples: the examples (marked with an * ) are an integral part of the course. A significant part of the exams will closely follow the format of the examples.

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Chapter</th>
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<td>29,31 Aug</td>
<td>What government should try to do</td>
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<td></td>
<td>- organic vs. mechanistic viewpoint.</td>
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<td>Overview of U.S. government</td>
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<td></td>
<td>- constitutional restrictions.</td>
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<td>- government budget.</td>
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<td>- fiscal federalism.</td>
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<td>Positive Economics</td>
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<td>- theory vs. econometrics.</td>
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<td>5,7,12 Sept</td>
<td>Normative Economics</td>
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<td>- (Pareto) efficiency.</td>
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<td>- first fundamental welfare theorem.</td>
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<td>- equity and social welfare functions.</td>
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<td>- second fundamental welfare theorem.</td>
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<td>* Pareto-efficient frontier.</td>
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14,19,21 Sept  
*Public Goods*  
- non-rivalness and non-excludability.  
- efficient provision.  
- free-rider problem.  
- public vs. private provision.  
- public vs. private production.  

* public goods 1.  
* public goods 2.  
* public provision of private goods.  

*Cost Benefit Analysis*  
- compensation criterion  
* Pareto-efficient, Pareto-criterion and compensation criterion.  

26,28 Sept, 3 Oct  
*Public Choice*  
- Lindahl (unanimous) provision.  
- majority voting.  
- Arrow impossibility theorem.  
- median voter theorem.  
- log rolling.  
- bureaucratic models.  

* public choice.  

5, 10,12 Oct  
*Externalities*  
- efficient behavior.  
- (Pigou) taxes and subsidies.  
- Coase theorem.  
- regulation.  

* externalities: the Coase theorem.  
* externalities: Pigou tax and regulation.  

17 Oct  
*MIDTERM*  

19,24,26,31 Oct  
*Income Distribution*  
- measurement of inequality.  
- Utilitarianism.  
- the shrinking pie.  
- Pareto-efficient income distribution.  
- max-min and the original position.  
- process or end-state criterion.  

(omit appendix)
* income inequality.

2,7 Nov  
Welfare Programs  
- cash vs. in-kind transfers.  
- the poverty trap.  
- negative income tax.  

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

9,14,16 Nov  
How Taxes Change Behavior  
- do labor taxes reduce effort?  
- do capital taxes reduce savings?  

* calculating the tax rate.

21,28 Nov  
Who Pays the Tax?  
- incidence.  
- sectoral taxes.  
- capitalization.

* tax incidence - partial equilibrium.

30 Nov, 5 Dec  
You Lose More Than You Pay  
- excess burden.  
- "first best" and "second best."

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

7,12 Dec  
Public Finance: deficit or tax financing?  
- Ricardo equivalence.  
- Keynes view.  
- overlapping-generation model.  
- traditional argument.  
- crowding-out of capital.  
- intergenerational bequest.

* bond or tax policy.

Extra: if time permits Social Security