ECONOMICS OF THE PUBLIC SECTOR, ECON 4211
University of Colorado, Department of Economics
Summer 1997

M-F: 9:15 - 10:50am Econ 119


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: 50% Midterm, 50% Final.

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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<tr>
<td>2 June</td>
<td>What government should try to do</td>
<td>1</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>
<td>3</td>
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<td>- theory vs. econometrics.</td>
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<td>3, 4 June</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>- 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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5, 6 June  

*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.

9 June

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

10, 11 June

*Public Choice*
- difficulties with truthful revelation.
- majority voting.
- Arrow impossibility theorem.
- median voter theorem.
- log rolling.
- bureaucratic models.

* public choice.

12, 13 June

*Externalities*
- efficient behavior.
- Coase theorem.

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

16 June

*MIDTERM*

17, 18 June

*Externalities (cont.)*
- (Pigou) taxes and subsidies.
- regulation.

19, 20 June

*Income Distribution*
- process or end-state criterion.
- social welfare functions
- Utilitarianism
- max-min and the original position.
- the shrinking pie.

* income inequality.
23, 24 June  
* Welfare Programs*
- cash vs. in-kind transfers.
- the poverty trap.
- negative income tax.
- cash and in-kind transfers.
- benefit trap.

25, 26 June  
* How Taxes Change Behavior*
- do labor taxes reduce effort?
- do capital taxes reduce savings?
- calculating the tax rate.

27, 30 June 1 July  
* Taxes: You Loose More Than You Pay*
- excess burden.
- "first best" and "second best."
- excess burden - product market.
- excess burden - labor market.

If time permits:  
* Public Finance: deficit or tax financing?*
- Ricardo equivalence.
- Keynes view.
- overlapping-generation model.
- traditional argument.
- crowding-out of capital.
- bond or tax policy.

3 July  
* EXAM*