
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.

Exams: As this is an advanced course, there is only one midterm. It will be held in the evening as:

MIDTERM: Tuesday, 3 March 7-9:00 p.m.

The final will be held as:

FINAL: Thursday, 7 May 7:30 - 10:30 a.m.
<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Chapter</th>
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<tbody>
<tr>
<td>13, 15 Jan</td>
<td><em>What government should try to do</em></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>- organic vs. mechanistic viewpoint.</td>
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<td></td>
<td><em>Overview of U.S. government</em></td>
<td>2</td>
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<td></td>
<td>- government budget.</td>
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<td><em>Positive Economics</em></td>
<td>3</td>
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<td></td>
<td>- theory vs. econometrics.</td>
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<td>20, 22, 27 Jan</td>
<td><em>Normative Economics</em></td>
<td>4</td>
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<td></td>
<td>- (Pareto) efficiency.</td>
<td>also: Appendix pp. 550-573</td>
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<td>- competitive outcome.</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>- compensation criterion</td>
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<td></td>
<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>*Pareto-efficient, Pareto-criterion and compensation criterion</td>
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<td>29 Jan</td>
<td><em>Public Goods</em></td>
<td>5</td>
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<tr>
<td>3, 5, 10 Feb</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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<td><em>Cost Benefit Analysis</em></td>
<td>12</td>
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</tbody>
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12, 17, 19 Feb  
*Public Choice*

**Informed voters:**
- majority voting - median voter theorem.
- cycling.
- log rolling.
- Arrow impossibility theorem.

**Uninformed voters:**
- the iron triangle.

* public choice.

24, 26 Feb  
*Externalities*

- efficient behavior.
- Coase theorem.

* externalities: the Coase theorem.

3 Mar  
*MIDTERM*

5, 10, 12 Mar  
*Externalities continued*

- (Pigou) taxes and subsidies.
- regulation.

* externalities: Pigou tax and regulation.

17, 19 Mar  
*Income Distribution*

- process or end-state criterion.
- social welfare functions.
- Utilitarianism.
- max-min and the original position.
- the shrinking pie.
- the equity v. efficiency trade-off.

* income inequality.
31 Mar, 2 April  
*Welfare Programs*
- cash vs. in-kind transfers.
- the poverty trap.
- negative income tax.

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

7, 9 April  
*How Taxes Change Behavior*
- do labor taxes reduce effort?
- do capital taxes reduce savings?

* calculating the tax rate.

14, 16 April  
*Who Pays the Tax?*
- incidence.
- sectoral taxes.
- capitalization.

* tax incidence - partial equilibrium.

21, 23 April  
*You Loose More Than You Pay*
- excess burden.
- (if time permits) inverse elasticity rule.

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

28, 30 April  
*Public Finance: deficit or tax financing?*
- Ricardo equivalence.
- Keynes view.
- overlapping-generation model.
- traditional argument.
- crowding-out of capital.

* bond or tax policy.

7 May  
FINAL EXAM