

ECONOMICS OF THE PUBLIC SECTOR, ECON 4211-002
Department of Economics, University of Colorado
Fall, 2003

Time: M, W, F: 10 - 10:50 am
Room: ECON 117

Professor: Charles de Bartolome
Office hours: M 4 - 4:45 pm, Tu 10-11am,
Thurs 1:30 - 2:30 pm
Office: Econ 203.
e-mail: debartol@spot.colorado.edu

Textbook: Rosen, H.S., (2002), *Public Finance*, 6th Edition. McGraw Hill Irwin.

Course description: This course considers the rationale for and the 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-requisite: Intermediate Microeconomics, ECON 3070.

Course assignments: The examples (marked with an * on the attached syllabus) are an integral part of the course. A significant part of the exams will closely follow the format of the examples.

All course assignments are to be located on the course WebCT page located at:
<http://webct.colorado.edu> .

In the past, some students to have difficulty in downloading some of the pdf files posted on WebCT . ITS advises that this is due to the large file sizes. ITS recommends that you open the Adobe Acrobat Reader. Then click as: Edit > Preferences> General > Options and *uncheck* "Allow Fast Web View".

Grading: The student's grade will be determined as: 45% Midterm, 45% Final and 10% Paper/Presentation.

Attendance at class: Yogi Berra once remarked: "90% of life is just turning up". The best way to learn the material is to attend class. Reading the lecture notes posted on the web is not a good substitute for attendance. Attendance at class is therefore expected.

Exams: Because this is an advanced course, there is only one midterm. The midterm and final will be given as:

MIDTERM: Monday 13 October 7:00 - 9:30 p.m.
in MCOL W100

FINAL: Wednesday, 17 December 1:30 - 4:00 p.m..
in ECON 117

Please let me know if one of these dates falls on a religious holiday you intend to observe and I

will arrange for you to take a make-up. Otherwise, you are required to take the exam at the above time. Only in compelling circumstances will a make-up exam be given and this must be agreed with me *before* the scheduled time of the exam. If you fail to take the exam at the scheduled time and fail to discuss the circumstances with me before the exam, you will score 0 in the exam.

You must bring a blue-book to each exam.

Students with Special Needs: If you qualify for accommodations because of a disability, please submit to me a letter from Disability Services (DS) in a timely manner so that your needs may be addressed. DS determines accommodations based on documented disabilities (303-492-8671, Willard 322, www.colorado.edu/sacs/disabilityservices).

Course outline: shown overleaf is a list of topics to be covered and likely dates.

<u>Date</u>	<u>Topic</u>	<u>Chapter</u>
25, 27, 29 Aug	<i>Overview of U.S. government</i> - government budget.	1
	<i>Positive Economics</i> - theory vs. econometrics.	2
3, 5 Sept	<i>Normative Economics</i> - Pareto-efficiency - welfare functions	3 (pp. 40-42)
8, 10, 12 Sept	<i>Private Goods</i> - (Pareto) efficiency. - competitive outcome. - first fundamental welfare theorem. - second fundamental welfare theorem. * Private and Social Marginal Benefits and Costs	3 <i>also: Appendix pp. 507-527</i>
15, 17, 19, 22 Sept	<i>Public Goods</i> - non-rivalness and non-excludability. - efficient provision. - free-rider problem. - public vs. private provision. - public vs. private production. * why the lights don't get turned off after class. * non-excludable public good. * excludable public good. * public provision of private goods.	4 (omit Appendix)

24 Sept	<i>Public Decision-Making:</i> <i>Normative</i> Cost Benefit Analysis - compensation criterion.	11 (pp. 237-240)
	* Pareto-efficient, Pareto-criterion and compensation criterion.	
26, 29 Sept, 1, 6 Oct	<i>Public Decision-Making</i> Positive <i>Informed voters:</i> - majority voting - median voter theorem. - cycling. - Arrow impossibility theorem. <i>Uninformed voters:</i> - the iron triangle. * voting * cycling.	6 (omit pp.107, 108)
6, 8, 10 Oct	<i>Externalities</i> - efficient behavior. - Coase theorem.	5 (pp. 78-88)
	* externalities: the Coase theorem.	
13 Oct	MIDTERM (7-9:30 pm in MCOL W100)	

15, 17, 20 ,22 Oct	<p><i>Externalities continued</i></p> <ul style="list-style-type: none"> - (Pigou) taxes and subsidies. - regulation. <p>* externalities: Pigou tax. * permit sales. * externalities: Pigou tax and regulation</p>	5 (pp. 90 -103)
24, 27, 29 Oct	<p><i>Redistribution</i></p> <ul style="list-style-type: none"> - process or end-state criterion. - equity and social welfare functions. - Utilitarianism. - max-min and the original position. - the shrinking pie. - the equity v. efficiency trade-off. <p>* income redistribution. * income inequality.</p>	7 (pp. 136-148)
31 Oct, 3, 5 Nov	<p><i>Welfare Programs</i></p> <ul style="list-style-type: none"> - cash vs. in-kind transfers. - the poverty trap. - negative income tax. <p>* cash and in-kind transfers. * benefit trap.</p>	7 (pp. 149-154) 8
7, 10, 12 Nov	<p><i>How Taxes Change Behavior</i></p> <ul style="list-style-type: none"> - do labor taxes reduce effort? - do capital taxes reduce savings? <p>* calculating the labor tax rate.</p>	16
14, 17, 19 Nov	<p><i>Who Pays the Tax?</i></p> <ul style="list-style-type: none"> - incidence. - sectoral taxes. - capitalization. <p>* tax incidence - partial equilibrium.</p>	12 (omit pp. 271-280)

21, 24, 26 Nov	<i>You Loose More Than You Pay</i>	13
	- excess burden.	(omit pp. 289, 290 and p. 305)
	- (if time permits) inverse elasticity rule.	pp. 306-311
	* excess burden - product market.	
	* excess burden - labor market.	
1, 3, 5, 8, 10 Dec	<i>Public Finance: deficit or tax financing?</i>	18
	- Ricardo equivalence.	Also: pp. 178-195
	- Keynes view.	
	- overlapping-generation model.	
	- traditional argument.	
	- crowding-out of capital.	
	* tax and bond policy.	
	* social security and savings.	
If time permits:	<i>Fiscal Federalism</i>	20
17 Dec	FINAL EXAM (1:30 - 4 p.m.)	