

ECONOMICS IN ACTION: PUBLIC POLICIES (ECON 4999-006)
Department of Economics, University of Colorado
Fall 2003

M, W, F: noon-12:50 pm,
Room: ECON 16

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 is an Economics In Action course which meets the critical thinking requirement of the undergraduate degree. Its focus is on understanding government programs by understanding their justification and their design.

The benchmark model of economics is that markets are “good” at producing and allocating most commodities. However, there are instances when markets do not work well. This is termed market failure, and the course will discuss two classic examples of market failures, viz. public goods and externalities. In such situations, a government program may be justified on the grounds that it can improve outcomes. In addition, markets do not always lead to equitable outcomes so that the government may be justified if it redistributes resources from rich to poor families. The course discusses how the design of a program is determined by the legislators’ objectives and by the extent to which voters are informed. In addition to discussing the justification and design of a government program, the course discusses the financing of the program and the design of the tax structure.

Course Level and Pre-requisites: The course is an Economics In Action course. The relevant prerequisites are Econ 3070 and 3080. The student is assumed to be familiar with marginal analysis, with marginal rates of substitution (private marginal benefit) and with utility analysis. In addition, students are assumed to be able to solve simultaneous equations both graphically and algebraically.

Course assignments: Examples will be provided for each topic. They are an integral part of the course. A significant part of the exams will closely follow the format of the examples.

All class notes, problem sets, announcements, papers, etc will be posted on the course WebCT page located at: <http://webct.colorado.edu> .

In the past, some students have had 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”.

Projects: There are three projects. In the first project, each student is asked to make a written report on a state’s fiscal position. In the second project, each student (as part of a team of two students) will debate another team on economic issues. There is a third project on a topic of the student’s choice: this project is done by the student as part of a small group. Both the debate and the third project are to be written up as a paper. The debates will take place in class on: 24, 27, 31 Oct and 5 and 7 Nov. The presentations for the third project will take place in class on 26 Nov, 1, 3, 5, 8 and 10 Dec.

Attendance at class: Yogi Berra once remarked that “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.

Grading: There is a midterm and a final. In addition, there are three projects. The grade of the student will be determined as: 25% Midterm, 25% Final, 10% First Project, 20% Second Project, 15% Third Project and 5% Individual Participation at the presentations.

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

MIDTERM:	Monday 13 October in MCOL W100	7:00 - 9:30 pm
FINAL:	Monday 15 December in ECON 16	1:30 - 4:00 pm

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 exams at the above times. 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) early in the semester 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>Basic structure</i> - separation of expenditure and tax sides - overview of government budget - normative vs. positive analysis - theory v. econometrics.	1, 2
3, 5 Sept	<i>Normative economics: the objective</i> - Pareto-efficiency. - welfare functions	3 (pp. 40-42)
8, 10 Sept	<i>Market efficiency: private goods</i> - first fundamental welfare theorem - second fundamental welfare theorem.	3 <i>also: Appendix pp. 507-527</i>
12, 15, 17, 19 Sept	<i>Market failure: public goods</i> - non-rivalness and non-excludability. - efficient provision. - free-rider problem and the need for coercion. - financing by taxes or by user fees. - privatization. Application: education	4 (omit Appendix)
22, 24 Sept	<i>Fiscal Federalism</i>	20
26, 29 Sept, 1 Oct	<i>Normative public decision-making</i> Benefit-Cost Analysis	11
6, 8, 10 Oct	<i>Positive public decision-making:</i> - informed voters - median voter theorem. - uninformed voters - legislators “control” voters - the iron triangle.	6 (omit pp.107, 108)
13 Oct	MIDTERM EXAM (7 - 9:30 pm in MCOL W100)	

15, 17, 20, 22 Oct	<i>Market failure: externalities</i> - efficient behavior - (Pigou) taxes and subsidies - regulation Application: environmental policy	5 (omit pp.86-89)
29 Oct, 3 Nov	<i>Income Redistribution:</i> - process or end-state criterion. - social welfare functions - the “original position” - the equity v. efficiency trade-off. Application: welfare programs	7, 8
10, 12, 14, 17 Nov	<i>Sales tax structures: efficiency</i> - tax rate calculation - excess burden	13 (omit pp. 289, 290) <i>Also:</i> pp 306-312
19, 21, 24 Nov	<i>Income tax structure</i> - efficiency and equity	
26 Nov 1, 3, 5, 8, 10 Dec	<i>Public Finance: deficit or tax financing?</i> - overlapping-generation model. - traditional argument for bond-financing. Application: social security.	18 <i>Also:</i> pp. 178-195
15 Dec	FINAL EXAM (1:30 - 4:00 pm in ECON 117)	