

ECONOMICS OF THE PUBLIC SECTOR, ECON 4211-002
Department of Economics, University of Colorado
Fall, 2004

Time: M, W, F: 10 - 10:50 am
Room: HLMS 211

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: 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.

Pre-requisite: Intermediate Microeconomics, ECON 3070.

Problem Sets: The problem sets are an integral part of the course. A significant part of the exams will closely follow the format of the examples.

WebCT: All course assignments and some lecture notes are to be located 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”.

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

Paper timeliness: It is important that the paper is handed in on the date due (to be announced). If the paper is not handed in by the date due, your course score will be lowered 1% . If the paper is not handed in by the day of the exam, *you will be graded Fail*. If you subsequently hand in the paper within 6 months of the final, your grade will be changed to the grade earned in the midterm, the final and the paper. If you do not subsequently hand in the paper within 6 months of the final, your grade will remain permanently as Fail.

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.

Administrative Drop: Because attendance is important and is expected, I will drop from the class any student who neither attends each of the first three classes of the term nor gets special permission from me for his/her absence.

Academic Integrity: Papers submitted by any student, written in part or in whole by someone other than that student, shall be considered to constitute fraud under the University Honor Code, and result in the assignment of an "F" for the entire course.

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

MIDTERM: Tuesday 12 October 7:00 - 9:00 p.m.
in

FINAL: Saturday, 11 December 8:00 - 10:00 a.m.
in HLMS 211

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>
23, 25 Aug	INTRODUCTION Separation of expenditure and taxes Government budget. Normative v. positive Positive economics: need for model	1 2
27 Aug	FISCAL FEDERALISM Assignment of responsibilities <i>Problem Set: Fiscal Fderalism</i>	20 (pp. 471-487)
30 Aug	NORMATIVE ECONOMICS: THE OBJECTIVE Pareto-efficiency Welfare functions Need for a model	3 (pp. 40-42)
1, 3, 8 Sept	PRIVATE GOODS Competitive outcome. First fundamental welfare theorem. Second fundamental welfare theorem. <i>Problem Set: First Fundamental Welfare Theorem</i> <i>Problem Set: Public Provision of Private Goods</i> <i>Problem Set: Second Fundamental Welfare Theorem</i>	3 <i>also: Appendix pp. 507-527</i>
10, 13, 15, 17, 20 Sept	MARKET FAILURE: PUBLIC GOODS Non-rivalness and non-excludability. Efficient provision. Free-rider problem. Public vs. private provision. Public vs. private production. <i>Problem Set: Why the lights don't get turned off after class.</i> <i>Problem Set: Non-excludable public good.</i> <i>Problem Set: Excludable public good.</i>	4 (omit Appendix)

22, 24,27, 29 Sept 4, 6, 8 Oct	PUBLIC DECISION-MAKING Normative: Benefit-cost analysis Positive: Informed voters: - majority voting - median voter theorem. - cycling. - Arrow impossibility theorem. Uninformed voters: - the iron triangle.	11 (pp. 237-240) 6 (omit pp.107, 108)
	<i>Problem Set:</i> Pareto-criterion and Benefit-Cost Analysis. <i>Problem Set:</i> Voting <i>Problem Set:</i> Cycling.	
11 Oct	Review	
12 Oct	MIDTERM (7:00-9:00 p.m. in)	
15,18,20,22,25,27,29 Oct	MARKET FAILURE: EXTERNALITIES Efficient behavior. Coase theorem. Pigou taxes and subsidies. Regulation.	5
	<i>Problem Set:</i> Externalities: the Coase theorem. <i>Problem Set:</i> Externalities: Pigou tax. <i>Problem Set:</i> Externalities: Permit sales. <i>Problem Set:</i> Regulation	
1, 3, 5 Nov	INCOME REDISTRIBUTION 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.	7 (pp. 136-148)
	<i>Problem Set:</i> Measuring income inequality <i>Problem Set:</i> Social welfare and income redistribution.	

8, 10, 12Nov	PUBLIC FINANCE: TAX OR DEFICIT FINANCING 18	
	Ricardo equivalence.	<i>Also:</i> pp. 178-195
	Keynes view.	
	Overlapping-generation model.	
	Traditional argument.	
	Crowding-out of capital.	
	Social Security	
	<i>Problem Set:</i> Tax or deficit financing.	
	<i>Problem Set:</i> Social security and savings.	
	<i>Problem Set:</i> Demographic issues	
15,17,19,29, 1 Nov	TAXATION: PRODUCT AND INCOME TAXES	pp. 380-383
	Do sales taxes reduce consumption	pp. 290-297
	Do labor taxes reduce effort?	
	Do capital taxes reduce savings?	
	Excess Burdens	
	<i>Problem Set:</i> Setting the product tax rate.	
	<i>Problem Set:</i> Product tax: excess burden.	
	<i>Problem Set:</i> Setting the income tax rate.	
	<i>Problem Set:</i> Income tax - excess burden.	
3, 6 Dec	TAXATION: NORMATIVE RULES FOR SETTING TAX RATES	
	Tax rules	pp. 306-312
	<i>Problem Set:</i> Tax Reform	
8 Dec	Review	
11 Dec	FINAL EXAM (8:00 - 10:00 a.m .in HLMS 211)	