This course is the first course in a two-course sequence. This course describes the key ideas in Public Expenditure and Taxation: public goods, externalities, public choice, excess burden, optimal taxation and tax incidence. At the end of this course, you will familiar with all the conceptual issues which must be addressed in a project in public economics. The second course is a topics course which focuses on papers closer to the “frontier of knowledge”.

The presentation of material stresses mathematical modeling. PhD students are required to have passed the Microeconomic Principles courses (Econ 7010, 7030). MA students are required to have passed the MA course in public economics (Econ 6211).

TEXTS:

EXAMS: The midterm will be held on Monday 21 October 7-9:30 pm. in ECON 13. The final exam will be held on Friday 13 December 7:30-10:00 am. in ECON 5. 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. You should bring a blue-book to the exams.

GRADING: there is one midterm and a final exam. The grade of the student will be determined as: 50% Midterm, 50% Final.

PROBLEM SETS:
Problem sets with answers will be posted on the WebCT page located at: http://webct.colorado.edu. The problem sets are an integral part of the course. They are designed to help you use the material, and a significant part of the exams will be based on them.

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”.

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).
PART 1: EXPENDITURE

26 Aug: INTRODUCTION
Starrett: Chapter 2 (pp. 8-15).

28 Aug, 4 Sept
FUNDAMENTAL WELFARE THEOREMS
Starrett, Chapter 3.

Problem Set:
Fundamental Welfare Theorems

9, 11, 16, 18 Sept
PUBLIC GOODS
Normative prescription:
Starrett, Chapter 4 (pp. 40-47).

Positive: non-rival and non-excludable:

Positive: non-rival and excludable:

Problem sets:
Efficient (First-Best) public good level.
Voluntary provision of non-rival non-excludable good.
"Market" provision of non-rival excludable good.
23, 25, 30 Sept  EXTERNALITIES

2 Oct  
Normative Prescription:
Starrett, Chapter 4, pp. 40-47

Planning Mechanisms to achieve efficiency with decentralization.
Starrett, Chapter 5, pp. 65-77.

Problem sets:
Consumption externality - using first-order conditions.
Production externality.
Externality - firm number.
Externality - decentralization using the Lagrangian

7, 9 Oct  PUBLIC CHOICE
14, 16 Oct  
Full information:
Starrett, Chapter 2, pp. 15-24.

Incomplete information:

Problem sets:
Voted public goods level.
Voting with informed voters.
Cycling
PART 2: TAXATION

23, 28, 30 Oct EXCESS BURDEN AND MARGINAL COST OF FUNDS

Problem Sets:
Excess burden with Cobb-Douglas utility
Excess burden with linear Marshallian demand.

4, 6, 11, 13 Nov OPTIMAL TAXATION
Indirect Taxation:

Direct Taxation:

Problem Sets:
Efficient product tax structure: Cobb-Douglas utilities.
Optimal tax: Goods complementary with leisure.
Efficient Income Tax

18, 20, 25 TAX INCIDENCE

Property tax capitalization:

Problem Set:
Harberger model of tax incidence.
PART 3: PULLING EXPENDITURE AND TAXATION TOGETHER

2 Dec

Second-best public goods level
can public spending to exceed the efficient level?" Working Paper of the
University of Colorado.

PART 4: CLUBS AND LOCAL GOVERNMENT

4, 9 Dec

CLUBS AND TIEBOUT MODEL
Starrett, Chapter 4, pp. 47-62.
American Economic Association 66, 116-121.
Economy 94, 416-424.
supply adjustment in a Tiebout-Oates model,” Journal of Political
Economy 82, 941-954.
Tiebout hypothesis,” Journal of Urban Economics 10, 227-239.

Problem Sets:
Clubs
Tiebout model of local government

11 Dec

THE MONOCENTRIC CITY
metropolitan area,” Papers and Proceedings of the American Economic
the conflict between efficiency and equity in the choice of the central city’s
majority,” University of Colorado Discussion Paper in Economics #01-9.