

ECONOMICS OF THE PUBLIC SECTOR

ECON 4211

FALL 2006

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Texts	Grading	Course outline	HW Assignments	Midterms 1 2	Final
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Course description.

What is a government? What do governments do and why?

We will study the way governments manage resources. Economic principles will guide us in understanding why governments exist and what economic activities they should undertake. These are normative questions. 'What is the effect actual government policies' is a positive question, which we will address in turn. Understanding and analyzing the way governments work is our primary objective.

Academic Requirements

The course is based on Econ 3070 and Econ 3080. Perfect knowledge of the material covered in the pre-requisites is essential for passing the course. Students are required to review their calculus tools to be able to solve homework assignments and exams. An ideal answer to a written question (in a HW or an exam) should contain a concise verbal explanation of the argument, a calculation to support the argument (either an algebraic or a numerical one) and, if applicable, a graphical illustration.

Attendance

Attendance is required. Students who miss more than six classes (for any reason) will not receive a passing grade.

Schedule

All exams are given as scheduled. Students who miss an exam will not receive a passing grade. There are no make-up exams.

Homework assignments have to be turned in before or on the due date. Late submissions receive zero credit. There is no lecture on Friday, September 15. The class time should be used to form groups for the Group Projects ([see below](#)) and to assign tasks within each group.

On the Honor Code

All students of the University of Colorado at Boulder are responsible for knowing and adhering to the academic integrity policy of this institution. Violations of this policy may include: cheating, plagiarism, aid of academic dishonesty, fabrication, lying, bribery, and threatening behavior. All incidents of academic misconduct shall be reported to the Honor Code Council and those students who are found to be in violation of the academic integrity policy will be subject to both academic sanctions from the faculty member involved and non-academic sanctions given by the Honor Code Council (including but not limited to university probation, suspension, or expulsion). Please refer to www.colorado.edu/honorcode to view the specific guidelines. If you have any questions related to this policy, please contact the Honor Code Council at honor@colorado.edu

Homework Assignments

Number	Assignment	Due date (class time)
1	<p>This assignment can be submitted as a joint project of no more than two students.</p> <p>Use Census of Governments (2002) data to construct two "pie charts"</p> <p>(1) the state of Colorado government expenditures</p> <p>(2) the state of Colorado government revenues</p> <p>Hint: use broad categories.</p> <p>Compare to the average state expenditures/revenues (hint: use chapter 1).</p> <p>Suggest an "ideal" composition of spending for CO and justify your answer.</p>	Friday, September 8.
2	Solve problems 3, 12, 15; chapter 8.	Friday, September 29
3	Solve problems 7, 12, 13, 14, 15; chapter 5.	Friday, September 29
4	Solve problems 4, 5, 6, 11; chapter 19	Friday, November 10
5	Solve problems 1, 6, 10, 12, 16; chapter 20	Friday, November 17
6	Solve problems 1, 4, 7, 13; chapter 21	Friday, December 1

Announcements

Group presentations:

Oct 16: Public Education

Oct 25: Welfare

Oct 27: Social Security

No class on Friday, September 15 (please, use the class time to coordinate preparation of the group projects)

Texts

Required text. Jonathan Gruber *Public Finance and Public Policy*. Worth Publishers, 2005.

Connect to the [textbook website](#) for additional material including quizzes, slides, and more.

Suggested Readings.

1. Ken Binmore *Game Theory and the Social Contract II. Just Playing* Cambridge, Massachusetts: The MIT Press, 1998.
2. John Harsanyi "Cardinal Welfare, Individualistic Ethics and Interpersonal Comparisons of Utility", *Journal of Political Economy*, Aug. 1955, 63(4), 309-321.
3. Robert Nozick *Anarchy, State and Utopia*. NY: Basic Books, 1974.
4. John Rawls *A Theory of Justice*, Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 1971.

Grading

Homework assignments 10%
Group project 10%
Class participation 10%
[Midterm](#) exams 20% each
[Final](#) exam 30%

Group Projects

There are three group projects

	Some useful websites
Public Education in the U. S.	http://www.ed.gov/rschstat/landing.jhtml : http://www.educationnext.org/20032/47.html Also see http://bcs.worthpublishers.com/gruber/ , click on Chapter 11, Internet Reference Guide, Web links
The U. S. Social Security System	www.ssa.gov . Also see http://bcs.worthpublishers.com/gruber/ , click on Chapter 13, Internet Reference Guide, Web links
Welfare Programs	http://www.census.gov/ Also see http://bcs.worthpublishers.com/gruber/ , click on Chapter 17, Internet Reference Guide, Web links

The project includes preparation of an in-class presentation and 1-2 page written summary. Each group should cover the following aspects of the topic:

1. Justification for government intervention
2. History and impact of spending on the economy
3. Current legislation and recent reforms

Students are encouraged to form study groups and discuss homework assignments, but they should write and submit their own (original) work.

As for the exams, any form of collaboration is prohibited.

Students with documented disabilities who may need academic accommodations should speak with the professor during first two weeks of the class (no later than September 9). Please, see also the Coordinator of Services to students with disabilities in the Disability Services Office, Willard 322 (phone 303-492-8671), so that such accommodations may be arranged.

Course outline

Note. The last column refers to the chapters of the required textbook.

Part 1. INTRODUCTION

Week 1	Introduction. Government at a Glance.	Chapter 1
Weeks 2, 3	Tools of normative and positive analysis. Fairness and efficiency.	Chapters 2-4

Weeks 4, 5, 6	The theory of Public Goods and Externalities. Coase Theorem.	Chapters 5-7
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MIDTERM EXAM 1 is on Friday, October 6, at the regular class time.

Part 2. COST-BENEFIT ANALYSIS AND PUBLIC EXPENDITURE

Week 7	Cost-Benefit Analysis.	Chapter 8
Week 8	Group project 1. Public Education. Social Insurance	Chapter 12
Week 9	Group projects 2,3. Welfare programs Social Security	Chapters 13, 17

MIDTERM EXAM 2 is on Wednesday, November 3, at the regular class time.

Part 3. TAXATION

Week 10	Taxation in the U.S., Tax Design: Tax Incidence	Chapters 18, 19
Week 11	Tax Design: Efficiency	Chapter 20
Week 12	U.S. Income tax	Chapter 21

Part 4. FEDERALISM AND POLITICAL ECONOMY

Week 13	State and Local Public Finance. Federalism	Chapter 10 Slides (theory) ; Slides (empirics)
Week 14	Political Economy and Selection of Public Projects.	Chapter 9 Slides (Aggregation of Preferences) ; Slides (Positive Political Economy: Examples)
Weeks 15, 16	Is There an Ideal Government? Review.	Suggested Readings: Books 3,4 are on reserve at Norlin. The textbook

FINAL EXAM is on Wednesday, December 20, 7:30 a.m. - 10:00 a.m.