

ECONOMICS OF THE PUBLIC SECTOR

ECON 4211

SPRING 2008

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Office location: Econ 121

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Texts	Grading	Course outline	HW Assignments	Midterms <u>1</u>	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. Masterhood 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) shall not receive a passing grade.

Schedule

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

Homework assignments have to be turned in before or on the due date before the commencement of the lecture. Late submissions receive zero credit.

Additional Accommodations

If you qualify for accommodations because of a disability, please submit to me a letter from Disability Services in a timely manner so that your needs may be addressed. Disability Services determines accommodations based on documented disabilities. Contact: 303-492-8671, Willard 322, and <http://www.Colorado.EDU/disabilityservices>

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)	
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1	Use Census of Governments (2002) data to construct two "pie charts" (1) the state of Colorado government expenditures (2) the state of Colorado government revenues Hint: use broad categories. Compare to the average state expenditures/revenues (hint: use chapter 1). Suggest an "ideal" composition of spending for CO and justify your answer.	Thursday, January 24	
2	Download the PDF	Thursday, February 7	SOLUTIONS
3	Download the PDF	Thursday, February 21	SOLUTIONS
4	Solve the sample midterm. Not for submission.	Tuesday, March 4	
5	Download the PDF	Thursday, April 3	Some solutions
6	Download the PDF	Thursday, April 17	SOLUTIONS

[Sample midterm](#)
[Midterm solution](#)
[Sample final](#)
and [some solutions](#)

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

Group Projects

There are four group projects

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	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 U. S. Healthcare System	See http://bcs.worthpublishers.com/gruber/ , click on Chapters 15-6, 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.

Course outline

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

Part 1. INTRODUCTION AND THE TOOLS

Week 1	Introduction. Government at a Glance.	Chapter 1
Weeks 2, 3	Tools of normative and positive analysis. Fairness and efficiency.	Chapters 2-4 Slides: Empirical tools
Weeks 4, 5	The theory of Public Goods and Externalities. Coase Theorem.	Chapters 5-7 Slides: Externalities
Week 6	Uncertainty and Social Insurance	Chapter 12, Slides: Moral Hazard and Adverse Selection Unemployment Insurance
Weeks 7, 8	Cost-Benefit Analysis.	Chapter 8

MIDTERM EXAM is on Thursday, March 6, at the regular class time.

Part 2. PUBLIC EXPENDITURE

Week 9	Group project 1. Public Education Summary prepared by the education group Group project 2. Welfare programs Summary prepared by the welfare group	Chapter 12
Week 10	Group project 3. Social Security Summary prepared by the social security group Group project 4. Healthcare Summary prepared by the healthcare group	Chapters 13, 17 Chapters 15, 16

Part 3. TAXATION

Week 12	Tax Design: Tax Incidence and Efficiency	Chapters 18-20
Week 13	Taxation in the U.S., U.S. Income tax	Chapter 21

Part 4. FEDERALISM AND POLITICAL ECONOMY

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

FINAL EXAM is on

	Mon.	May 5	7:30 a.m. - 10:00 a.m.
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