

## Public Finance - Economics 305 Syllabus, Fall 2011

11 a.m. MWF (CRN 12735)

This course examines the role of the public sector in the economy. The aim is to understand reasons for government intervention in the economy, the extent of that intervention, and the response of economic agents to the government's actions. Interventions explored will include government expenditures (e.g., social insurance programs, healthcare, education, etc.) and transfer programs (cash welfare, food stamps) as well as taxation. This course is an application of intermediate microeconomic theory and, thus, will utilize economic tools you should already have at your disposal in order to formulate theoretical models of public sector activities and also examine empirical findings about the same.

### Course Objectives/ Learning Outcomes

Students in this course will:

1. Understand the economic justification for government intervention in markets and people's lives, the scope and scale of the intervention, and the causes for concern about the same.
2. Learn to apply the fundamentals of microeconomic theory to the specific scenarios associated with government expenditure programs and tax policy and to comprehend some of the empirical research on these topics.

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**Instructor:** Sarah M. Estelle, 315 Buckman Hall  
**Office Hours:** Mondays and Wednesdays 1:30-3:00 p.m., and by appointment  
**Email:** estelles@rhodes.edu

**Required Text:** The assigned text for the course is Public Finance (9<sup>th</sup> edition) by Rosen and Gayer. This is a complement to, not a substitute for, our class discussions. Other supplementary readings will be assigned (some are listed below) and made available on the course Moodle site.

**Attendance:** There will be three fifty-minute classes each week; these will not parrot the assigned reading. This is a small class comprised of individuals who, presumably, are highly interested in the issues surrounding the public sector. For this reason I expect you all will want to attend and participate. I also request that you arrive punctually since you can either be on time and impose a significant positive externality on the class with your contribution or, if you're late, a noticeable negative externality. If you miss a class for some reason, you are responsible for obtaining the information you missed from a classmate.

**Important Dates:** Friday, September 23: Midterm Exam I  
Friday, November 4: Midterm Exam II  
Friday, December 9: Comprehensive Final Exam at 1:00 p.m.

**Moodle:** The online Moodle site associated with this course will facilitate distribution of supplementary readings and assignments, additional optional exercises, and general communication. If you have not done so already, please log in to Moodle today, familiarize yourself with the page, and check back often.

**Academic Support:** Students who wish to discuss individual accommodations for disabilities as recommended by the **Office of Student Disability Services** (x3994, e-mail: mccowenm@rhodes.edu) should see me during office hours as early in the semester as possible.

**Plagiarism:** According to the Honor Council Constitution, "Plagiarism is an act of academic dishonesty. A student must not adopt or reproduce ideas, words, or statements of another person without appropriate acknowledgment." Please consult the staff at the Writing Center or me if you have questions on citing sources in your coursework.

**The Honor System:** I take the Honor Code seriously. I trust that students in this class will be truthful in their dealings with me and will not cheat on their assignments and exams. In the unlikely event that one of you observes an incidence of cheating, I assume you will report the violation to a member of the Honor Council.

**Course Grade:** Your course grade will be calculated as the sum of your points on three exams, several homework assignments, and a project comprised of a paper and in-class presentation (details forthcoming).

|          | <b>Points Possible</b> | <b>Percent of Total Grade</b> |
|----------|------------------------|-------------------------------|
| Test I   | 80                     | 20%                           |
| Test II  | 100                    | 25%                           |
| Homework | 60                     | 15%                           |
| Project  | 60                     | 15%                           |
| Test III | <u>100</u>             | <u>25%</u>                    |
| TOTAL    | 400                    | 100%                          |

Letter grades will be assigned according to the following scale

| <b>Letter Grade</b> | <b>400-point Scale</b> | <b>Corresponding %</b> |
|---------------------|------------------------|------------------------|
| A                   | 380                    | 95%                    |
| A-                  | 360                    | 90%                    |
| B+                  | 348                    | 87%                    |
| B                   | 332                    | 83%                    |
| B-                  | 320                    | 80%                    |
| C+                  | 308                    | 77%                    |
| C                   | 292                    | 73%                    |
| C-                  | 280                    | 70%                    |
| D+                  | 268                    | 67%                    |
| D                   | 252                    | 63%                    |
| D-                  | 240                    | 60%                    |
| F                   | 239 and below          | < 60%                  |

**Midterm Exams:** There will be three exams during this semester. The first two will be administered in class on the days listed in the syllabus. The third exam will be given during your class' final exam timeslot. These dates will not change, so write them on your calendar now and plan around them. If you are unable to take one of the midterm exams at the scheduled time because of a mandatory intercollegiate competition, please see me before 3:30 p.m. on **Friday, August 26**. We will arrange for a time when you can take the exam *before* the scheduled exam time with which you have a conflict.

In the case of severe illness or death of a family member, please notify me of your situation (in advance unless it is an extreme and unforeseen emergency), and I will arrange for a later make-up exam which may be of a different format than the in-class exam.

On the final page of this document, the tentative course outline provides a useful estimate of the material we will cover before each exam.

**Final Exam:** The final exam in this course, what we'll call Test 3 since it will be similar in format and weight to the course's other exams, is not comprehensive. It will be administered during the scheduled exam period (**Friday, December 9 at 1:00 p.m.**)

**Homework:** Homework is due by noon on the determined day. If you anticipate missing class the day homework is due, you must get the assignment to me by the deadline just the same. This can be accomplished by leaving the assignment in the bin outside my office. (Deadlines have purposes, in this case, so that I can return your homework to you as quickly as possible for your benefit.)

Working through problems (assigned, recommended, or otherwise) thoroughly and completely is the best way to learn this material. I encourage you to work in groups throughout this course, including on these assignments. However, the final work you submit for assignments must be entirely your own.

## Tentative Course Outline (with some corresponding readings\*)

- I. Introduction Chapters 1-3
- II. The Role of Government
- Justifications for the Public Sector Thaler and Sunstein (2007)
  - Optimal Provision of Public Goods Chapter 4
  - Externalities and Efficiency Chapter 5, Parry et al. (2007)
  - Overview of Political Economy Chapter 6 pp. 108-126 & selections from 22
  - Cost-Benefit Analysis Chapter 8

*September 23: Test 1*

- III. Government Expenditures and Transfer Programs
- Introduction to Social Insurance
  - Health Insurance and Provision of Health Care Chapters 9-10, Gruber (2008)
  - Social Security and Retirement Behavior Chapter 11
  - Unemployment Insurance Chapter 13 (pp. 289-291), Chetty (2008)
  - Public Provision and Subsidization of Education Chapter 7, portions of Hanushek (2002)
  - Means-Tested Transfer Programs Chapters 12 and 13, Blank (2002)

*November 4: Test 2*

- IV. Taxation
- Economic Incidence and Elasticity Chapter 14
  - Efficiency and Optimal Taxation Chapters 15 and 16, Saez et al. (2009)
  - United States Tax System Chapters 17-18 and 21, Auten et al. (2002)

- V. Presentation of Student Projects

*December 9 at 1:00 p.m.: Test 3*

*\*Note: Actual reading assignments (with precise page numbers and links to non-text readings) will be posted on the class Moodle page. This outline should be seen as an overview of the semester but not as an exhaustive list of course readings.*