

Public Finance

ECON 330.001, Fall 2014
Tuesdays & Thursdays, 1:30—2:45
Innovation Hall, Room 208

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Course Objectives

To understand intergovernmental financial relationships; types, incidences, and consequences of taxation; other sources of governmental income; governmental expenditures; public economic enterprises; public borrowing; and debt management. To model and predict the economic effects of government spending, taxation, and borrowing (i.e., of fiscal policy) on society.

Textbook & Readings

Holcombe, Randall (2006), *Public Sector Economics: The Role of Government in the American Economy*, Prentice-Hall: New York. ISBN-13: 9780131450424

In addition to textbook readings, listed below are a few of economic journal articles you will also need to read. All are accessible through the GMU Libraries database collection (JSTOR) using your GMU student login.

Coase, R. H. (1960), "[The Problem of Social Cost](#)," *Journal of Law & Economics* 3, pp. 1-44.

Hayek, F. A. (1945), "[The Use of Knowledge in Society](#)," *American Economic Review* 35 (4), pp. 519-530.

Demsetz, Harold (1967), "[Toward a Theory of Property Rights](#)," *American Economic Review* 57 (2), pp. 347-359.

Course Prerequisites

ECON 306 (Intermediate Microeconomic Theory)

Grading

Grades are based on 2 homework assignments, a mid-term exam, 2 case studies, and a final exam (given during the time listed in the *Schedule of Classes*). These are weighted for your final grade:

(4) Homework Assignments (5% each)	20%
(2) Case Study Papers (10% each)	20%
Mid-Term Exam	30%
Final Exam	30%

Assignments are due at the beginning of class on the due date. Late assignments docked one letter grade penalty for each calendar day late. There are no extra credit assignments.

Homework

Homework assignments are designed to reinforce the subject matter and to give you an incentive to remain up-to-date with course readings and lectures. You may work in groups to solve the homework, but each student must turn in his/her own copy of the assignment to receive credit.

Case Studies

In each half of the semester, you're assigned a case study of a particular public policy problem. Your task is use economic tools to analyze the problem and recommend a course of action based on your analysis results. Grading is based on the quality of your economic reasoning, not the recommendation you make. As with the homework, you may work in groups to analyze the cases, but each student must turn in his/her own essay to receive credit.

Exams

Exams are a combination of true/false, multiple choice, and problems/short-answer, which are based on the assigned readings, class lectures, and homework assignments. Study guides for each exam will be posted on the course website. There are no make up exams.

Attendance

Attendance is not mandatory; however, as an adult you know you will do better if you attend class regularly and complete the assignments. In addition, occasionally information is covered in class that is not covered directly in the textbook. More tips for semester success are on my website under “Tips” on the course page.

Disability Resource Center

If you are a student with a disability requiring academic accommodation, you will need to contact the DRC Office, 703.993.2474. All academic accommodations must be arranged through that office.

Students must know and follow the George Mason University Honor Code.

Semester Outline*

2014 Dates*	Topics	Chapter*
8.26	Introduction & Course Overview	Holcombe 1
8.28—9.4	1. Economic Logic and Analysis Basic economic analysis of government, review of competitive markets, MC/MB, surpluses, elasticity, and social welfare. Property rights, commons, economic efficiency, and entitlements/transfers. <i>HW #1, Case Study (1) Posted, Last Day to Add, 9.2.14</i>	Holcombe 2 Holcombe 3 Hayek (1945)
9.9—9.16	2. Tax Incidence and Analysis Effect of taxes on market prices and output; deadweight losses; tax neutrality and tax shifting; bases, rates, and excess burden.	Holcombe 10
9.18—9.23	3. Principles of Tax Policy Benefit principle and ability to pay; progressive, regressive, proportional taxes, sumptuary taxes; politics and taxes. <i>HW #1 Due, 9.18.14; HW #2 Posted, 9.23.14</i>	Holcombe 11
9.25—10.2	4. Income Taxes Income definitions, labor/leisure tradeoff, tax rates and revenues; average vs. marginal rates; and double taxation of savings. <i>Last Day to Drop: 9.26.14; Case Study (1) Due, 10.2.14</i>	Holcombe 13
10.7—10.9	5. Public Debt Public Borrowing and fiscal choice; overlapping generations; Ricardian Equivalence; intergenerational transfers. <i>HW #2 Due, 10.7.14</i>	WPO**
10.14	Tuesday Classes do not meet (Columbus Day Recess)	
10.16	MID-TERM EXAM	
10.21—10.28	6. Public Goods Collective consumption goods; the free rider problem; Lindahl pricing and the optimal supply of public goods. <i>HW #3 and Case Study (2) Posted, 10.23.14</i>	Holcombe 5
10.30—11.4	7. Externalities Positive and negative; Pigouvian taxes and subsidies; property rights and Coasian bargaining; spillovers and methods of internalization.	Holcombe 4 Coase (1960)
11.6—11.11	8. Efficiency vs. Equality Dimensions of equality, collective charity, redistribution and effects on incentives, politics of redistribution. <i>HW #3 Due 11.13.14, HW #4 Posted, 11.13.14</i>	Holcombe 18
11.13—11.18	9. Collective Decision Making Unanimity and Pareto; the theory of Clubs, and the Choice Among meta-Rules (constitutions).	Holcombe 7

11.20—11.25	10. Demand for Government Services Median voter model, cyclical majorities, information, incentives, and efficiency. Case Study (2) Due, 11.25.14	Holcombe 8
11/26—11/30	THANKSGIVING BREAK	
12.2—12.4	11. Entitlements and Rights Interest group politics and demand for redistribution, cost shifting; rent seeking behavior. Government itself as an interest group. HW #4 Due, 12.2.14	Holcombe 9 Demsetz (1967)
12.16	FINAL EXAM—1:30am to 4:15pm	

* Schedule subject to change due to weather and other factors.

**WPO = Web-posted outline (posted to the course webpage, http://mason.gmu.edu/~jcochra1/index_files/ECON330.htm).

Case Study Essays

Description and Instructions

Value: 20 total semester points (10 points for each case study).

Paper Length: Each of your analyses should be about 4 to 5 typewritten double-spaced pages—not counting graphs, tables, footnotes or other supporting material. A “References” page should also be included if necessary (not counted as part of the 4 to 5 pages) listing any articles, books, or other sources you may have cited in the paper.

Objective: To describe, analyze, and recommend a solution to a fiscal or public policy problem. I will provide a narrative that outlines the particulars of the fiscal or public policy case that you are to analyze.

Think of these essays as if you were an analyst on the White House staff or a legislative analyst at the state or local level, and you were asked to write a brief analyzing some selected policy problem. You’ll need to analyze the problem using one or more of the economic tools we develop in class, and you must also recommend a course of action you believe should be taken. Obviously, your recommendation should proceed logically from your analytical results; however, this assignment will be judged according to the economic reasoning you employ, not the conclusion/recommendation you reach.

Method: Before you begin writing, I would suggest analyzing the problem on scratch paper, using geometry or algebra, for example, to model the problem. Then, your writing will largely be a matter of describing and explaining what your scratch paper analysis reveals. For example, suppose a policy change is suggested that the minimum wage should be raised. Using comparative statics geometry, you could model the effects such a price floor has on the labor market, such as: it introduces deadweight losses (social welfare reductions), it transfers resources, it tends to generate higher unemployment among the least-skilled workers, and so on, and you explain these results in your essay.

One approach that might be helpful in organizing your paper would be to devote the first couple of paragraphs to explaining the problem you are analyzing and its importance (motivate the reader to want to read more). Then the next several paragraphs describe and explain your model and its analytical results (from your scratch paper notes), and then the final few paragraphs sum up your findings and include a recommendation. Following that procedure, you should easily meet your 4 to 5 page budget.

As with homework assignments, you may work in study groups to solve/address the macroeconomic issue assigned. Each student however must write and submit his/her own paper. You must, therefore, be very careful about plagiarism. Do not submit another's work as your own. Papers bearing close resemblances in wording to each other will each receive zeroes.

Due Dates: 10.2.14 Case Study (1)
 11.25.14 Case Study (2)

Case Study Essays

Grading Criteria

These are the criteria I apply when grading the policy papers: (a) how well you followed the instructions; (b) the quality of your analysis, and (c) how clearly did you express your ideas.

A. Were the instructions followed? (2 points) The ability to read, understand, and follow instructions is a useful lifelong skill that, sadly, many adults never master.

1. **Tool Usage**—were analytical tools explicitly used? (e.g., a supply and demand model, intertemporal choice, consumer surplus, etc.) *If the paper omitted a model, it will be difficult to score well on the next criteria as well as on Section B. The entire purpose of these essay exercises is to see how well you apply economic models and tools to a policy problem.*
2. **Results**—did the paper describe the results that the economic tools predict?
3. **Recommendation**—did the paper make an explicit policy recommendation?
4. **Length**—did the paper adhere to the length, formatting, and citation requirements?

B. Analytical Quality (6 points) This is central point of the exercise. Can the student take an economic model, apply it to a fiscal policy problem, and draw a conclusion?

1. **Pertinence (1)**—are the economic tools used correctly for the problem being analyzed?
2. **Sound Reasoning (2)**—is the analysis sound?
3. **Accuracy (2)**—are the conclusions drawn from the model's results correct?
4. **Logical Coherence (1)**—does the paper's policy recommendation proceed logically from the analytical results? If not, is there a justification for the deviation?

C. Style (2 points) Following instructions and sound reasoning tend to get lost if one's ideas are presented sloppily or incoherently.

1. **Grammar**—were there just a few grammatical errors (spelling, punctuation, diction, s/v agreement, sentence structure, etc.)?
2. **Coherence**—is the paper coherently written? (i.e., does the prose follow a logical chain of progression and can the reader follow the argument easily) Use of tables, diagrams, and other references are often very helpful in explaining your point(s). Be sure to clearly label any such references.