

Syllabus

George Mason University

revised 7/19/15

Econ 330 Public Finance - Spring 2015

Professor Yong J Yoon

Office: Buchanan House upstairs west, (703) 993-2332

Office Hours: 3:15-4:00pm TTh and by Appointment

Class: 1:30 – 2:45pm TTh, Robinson Hall B111

Email: yyoon@gmu.edu, Webpage: Blackboard**Term paper due. 12/10 Th (last class)****Final exam. Tuesday 12/15, 10:30am-1:15pm**

“Yet, although the problem of an appropriate **social order** is today studied from the different angles of *economics*, *jurisprudence*, *political science*, *sociology*, and *ethics*, the problem is one which can be approached successfully only as a whole. - F. Hayek

Overview

Traditionally **Public economics** used to deal with taxation. **Taxation** is still the core issue of our subject. Taxation is a political issue as well as an economic issue. American Revolution started with the slogan “No taxation without representation.” **Public Economics** is the economic analysis of the public sector of the economy. It analyzes the effects of government policies on economic activities. This is the standard approach and utilizes neoclassical economics. However, the trend is to interpret **Public Economics** more broadly. **Public Finance** studies the fiscal aspects of public economics. These include government expenditures, taxation, and debt. Modern democratic governments directly control more than a third of gross national product and influence much of the rest through their fiscal and regulatory policies.

An important development in public economics has been to analyze the political processes by which those policies are formed. This is the **public choice economics** founded by James Buchanan and Gordon Tullock. This course will add one more perspective, classical liberalism. The purpose of this course is to achieve three goals. First is to provide students with the microeconomic tools to understand the impacts of those fiscal policies. The second is to introduce public choice approach or political process that generates public policies. The third is to evaluate the major issues of public economics from the perspective of classical liberalism. The issues covered are: i). Welfare state, ii). Social security, iii). Redistribution, iv). Education and research as is discussed in Hayek (1960).

Prerequisites: Intermediate Microeconomics (ECON 306)**Texts**Randy Holcombe, *Public sector economics* by, Prentice Hall 2006 (main text)

Hernando de Soto, *The Mystery of Capital: why capitalism triumphs in the west and fails everywhere else*, Basic, 2000. ISBN: 0465016146

Michael Mitsopoulos and Theodore Pelagidis. 2011. *Understanding the Crisis in Greece: from boom to bust*. Palgrave macmillan.

Frederich A. Hayek. 1960. *The Constitution of Liberty*. University of Chicago Press.

Assignments and Requirements and Grades

The grades are based on two midterm (20% + 20%), final (30%), paper (20%), class participation (10%). **Midterm and Final** exams will consist of multiple choices and define/identify (1/3), short essays (1/3), and problem solving (1/3). The **Final** exam will be cumulative. There will be **no makeups**.

Paper will consist of reading response (of de Soto, due 9/17), first draft (due 12/1) and final draft (due 10/22). draft (chapters from Hayek, due 12/1) The weight will be 5-5-10. Class participation will consist of cold calls in class and discussion. I may ask your names to put on my record. The evaluation will be based on effort.

A : 88 - 92,

A- : 85-88

B+ : 82-85

B: 78 – 82,

B-: 75-78

C+: 72-75

C : 68-72

C-: 65-68

D and F: below 65

Attendance and participation will work on half grade basis.

Example. B+ could end up final grade A- or B.

The reading response is two-page long. The term **paper** will be 6-8 pages long. You will write the first draft, on which I will write my comments, and you will submit the revised final draft. You will pick a topic from Hayek (chapters 17 through 24), Mitsopoulos/Pelagidis, or de Soto. One requirement of the paper is that it should include a data.

The course is “lecture driven” in that most relevant material is covered in class. There will be handout (or PPT notes) in the class.

Important dates are

9/17Thu: Reading response of de Soto

10/1; Midterm1, 10/29: Midterm2.

11/19: First Draft Term Paper

Thanks giving Break 11/24-26

12/10 (last class): Term Paper due

12/15Th 10:30am-1:15pm: Final Exam:

Problem set

1. Supply and demand and equilibrium
2. Monopoly and monopsony
3. Tragedy of the commons
4. Public goods provision
5. Voting model
6. Fiscal commons and voting
7. Externality and corrective tax
8. Luncheon club
9. Health insurance
10. Social security – compound interest
11. Tax shifting - algebra
12. Excess burden from taxation
13. Tax reform – compound tax
14. Negative tax – Milton Friedman

Schedule of Topics (subject to revisions)

Topic 1. Public sector v. private sector H1 and H2.

Private sector is market for private consumption goods. Main topic in price theory or microeconomics.

Free market, voluntary exchange of private consumption goods. Efficient.

Topic 2. Property rights (H3): de Soto (book review)

Topic 3. Market failure, externalities and public goods

Topic 4. Collective action, public choice : Holcombe part iii. Chapters 7,8,9.

M&P, chapters 1,2,3.

Topic*. Greek debt Crisis

The topic is based on the book by Mitsopoulos and Pelagidis. 2011. *Understanding the Crisis in Greece: from boom to bust*. Palgrave macmillan. Students will be divided into seven groups, each group consisting of 4 – 5 students, and will present the material in class. The important part is the question and answer at the presentation. Each grup will record the questions and their answers and make a report to me. The name of questioner and answers must appear on the report. We plan to have three class meetings for the presentation. In each session there will be two groups who present their preparations.

Group 1. Chapters 1 and 2. 20 pages

Group 2. Chapter 3. 30 pages

Group 3. Chapter 4.1-4.7. 22 pages

Group 4. Chapter 4.8-4.12. 30 pages

Group 5. Chapter 5.1 – 5.3. 35 pages

Group 6. 5.4-5.5. 43 pages

Group 7. 5.6-5.10. 40 pages

Topic 5. Taxation (H part iv, chapters 10 through 16) and tax reform

Topic 6. Expenditure programs

i). Welfare state, Hayek

iii). Redistribution, Holcombe, Hayek

Topic 7. social security (H20), Hayek

Topic 8. education (Jim Coleman), and research, Hayek

Problems in Korean and Japanese education