

SYLLABUS: ECONOMIC PROBLEMS AND PUBLIC POLICY

ECON 309, SECTION 1 ISPRING 2017

ADMINISTRATIVE DETAILS

TIME: Mondays-Wednesdays-Fridays, 9:30-10:20 A.M.
PLACE: Robinson B-220
INSTRUCTOR: William (Bill) McNaught
EMAIL: wmcnaught1@verizon.net and wmcnaugh@gmu.edu
PHONE: 703-777-3182 (H) and 703-209-2032 (C)

OBJECTIVE

Students will learn:

- ▶ *more about both microeconomics and macroeconomics;*
- ▶ *how economics shapes the design of many public policies; and*
- ▶ *how differences in values and philosophies shape government programs.*

MATERIALS

PRINCIPAL TEXT

- [SR] Joseph Stiglitz and Jay Rosengard, *Economics of the Public Sector*, 4th Edition

BLACKBOARD

- [BW] W. Bennett and R. Wilezol, *Wall Street Journal*, Dec 28, 2014: "Best Value Schools, 2011," especially Figure 3.1
- [RB] R. Blank in C. M. Henry (ed), *Race, Poverty and Domestic Policy*: "Fighting Poverty: Lessons From Recent U. S. History"
- [JB] J. Buchanan, *Essays in Political Economy*: "The Public Choice Perspective"
- [TC] T. Cowen, *Average Is Over*: Chapter 1, "Work and Wages in iWorld"; Chapter 2, "The Big Earners and the Big Losers" and Chapter 3, "Why Are So Many People Out Of Work?"
- [DC] D. Cutler in *The Economist's Voice 2010*: "The Simple Economics of Health Reform"
- [AD] A. Davidson, *The New York Times*, September 13, 2015: "A Matter of Degrees"
- [MD] M. DeBonis, *The Washington Post*, January 11, 2017: "The Price of Obamacare"
- [EC] *The Economist*: August 9, 2014, "Age Invaders"; October 31, 2015, "Where's Best"; August 8, 2015, "Climate Change, Hotter Than August"; September 20, 2014, "Experimental Medicine"; November 28, 2015, "Second Best Solutions"; February 13, 2016, "Reeferatory Challenge" and October 8, 2016, Barack Obama, "The Way Ahead"
- [RayF] R. Fair, *Predicting Presidential Elections and Other Things*, Second Edition: Chapter 2, "The Tools in Seven easy Lessons" and Chapter 3, "Presidential Elections"
- [RbtF] R. Frank, *Success and Luck*: Chapter 2, "Why Seemingly Trivial Random Events Matter" and Chapter 3, "How Winner-Take-All Markets Magnify Luck's Role"
- [RicF] R. Freeman, *The New Inequality*: "Solving the New Inequality"
- [JG] J. Galbraith, *Inequality What Everyone Needs To Know*: Chapter 2, "Inequality in the History of Economic Thought"
- [GL] D. Goldman and D. Lakdawalla, *The Economist's Voice 2010*: "Can the ACA Improve Population Health?"

- [JH] J. Heckman in C. M. Henry (ed), *Race, Poverty and Domestic Policy: "U. S. Education and Training Policies: A Reevaluation of the Underlying Assumptions Behind the New Consensus"*
- [FI] F. Incropera, *Climate Change: A Wicked Problem*: Chapter 4, "Global Warming"; Chapter 7, "Public Policy Options" and Chapter 8, "Politics of Global Warming"
- [KS] L. Kenworthy and T. Smeeding in Brian Nolan, Wiemer Salverda, et al, *Changing Inequalities and Social Impacts in Rich Countries*: Chapter 29, "The United States: High and Rapidly Increasing Inequality"
- [DL] D. Leonhardt, *New York Times*, May 27, 2014: "Is College Worth It?"
- [GM] N. Gregory Mankiw, *Principles of Microeconomics*: Chapter 3: "Interdependence and Gains From Trade"; Chapter 4, "Forces of Supply and Demand"; Chapter 5, "Elasticity and Its Applications"; Chapter 8, "Application: The Costs of Taxation", esp. Figures 5 and 6; and Chapter 10, "Externalities"
- [DM] D. Marron, *30 Second Economics*: "Public Choice"
- [WM] W. McNaught, *Modern Political Economy*: Chapter 1, "The Evolution of Economics"
- [MB] R. L. Miller and D. K. Benjamin, *Economics of Macro Issues*, 6th Edition: Chapter 18, "Myths About Social Security"
- [MBN] R. L. Miller, D. K. Benjamin and D. C. North, *The Economics of Public Issues*, 18th Edition: Chapter 6, "Sex, Booze and Drugs"; Chapter 12, "Over \$1 Trillion in College Debt and Rising"; Chapter 13, "The Effects of the Minimum Wage"; Chapter 15, "The (Dis)incentives of Higher Taxes" and Chapter 26, "Greenhouse Economics"
- [NSP] New Strategist Press, *American Incomes*, 9th Edition: "Household Income Trends"
- [JR] J. J. Rousseau, *A Discourse on Inequality*: Part 1
- [AS] A. Sen in C. M. Henry (ed), *Race, Poverty and Domestic Policy*: "From Income Inequality to Economic Inequality"
- [JS] J. Stiglitz, *The Price of Inequality*: Chapter 3, "Markets and Inequality" and Chapter 5, "A Democracy in Peril"

INTERNET RESOURCES

- [RD] R. Dighe, "Legalize It—The Economic Argument" {huffingtonpost.com}
- [NASI] National Academy of Social Insurance, *Social Security Benefits, Finances and Policy Options: A Primer* {NASI.org/research}
- [OW] ObamacareWatch, *Health Care Primer: An Introduction and Health Costs and the Federal Budget* {Obamacarewatch.org}
- [PO] *Politico's Understanding Obamacare*, INTRODUCTION, BIG CHANGES: COVERING PRE-EXISTING CONDITIONS, THE TRADEOFF: THE INDIVIDUAL MANDATE, HOW YOU'LL GET INSURANCE, and HOW OBAMACARE AFFECTS BUSINESS {Politico.com/Obamacare}
- [WS] W. Shugart [WS], *Public Choice* {[econlib.org/library/ PublicChoice.html](http://econlib.org/library/PublicChoice.html)}

COURSE POLICIES

Prerequisites

The instructor assumes that all students have completed introductory courses in microeconomics, probably GMU's Econ 103, but possibly NVCC's equivalent course Eco 202. If a student has not, he/she should notify the instructor. Additional experience with macroeconomics, perhaps through Econ 104, would also be helpful.

Scheduling

Most sessions the class will examine one chapter of the principal textbook supplemented by outside readings. A new section in the course discussing the importance of the country's increasing income inequality and its political implications relies primarily on outside readings including a chapter from another book by the lead author of our textbook, Joseph Stiglitz. Most articles outside the textbook will be posted on Blackboard.

The course begins with a quick review of microeconomic theory using Powerpoint slides from Greg Mankiw's textbook *Principles of Microeconomics* and also a review of the fundamental economic principle of "gains from trade." Students will need a firm grasp of the basic economic principle of gains from trade if they hope accurately to evaluate likely policies of the Trump Administration, especially in regards to immigration and trade. These Powerpoint slides have been uploaded to Blackboard. Lecture notes for each daily session will be posted on Blackboard.

Office Hours and Extra Help

As an adjunct professor, the instructor does not have an office in the Economics Department. He will try to be in the adjunct office in the Department Wednesdays from 11:00 AM to noon, but students hoping to see him then are advised to make an appointment first. Students may also ask questions by email or meet with him by appointment outside these "office hours." Students interested in the topic of environmental protection and externalities may wish to know the instructor is also teaching Econ 335 (Environmental Economics) Monday-Wednesday-Fridays at 1:30 PM in Room 206 of Planetary Hall. He will be discussing externalities and climate change in this course from April 12th to the 19th.

Lateness

Students need not worry about coming to class late if they enter unobtrusively. Given the early scheduling of this class and the instructor using Fairfax County Parkway to drive to Mason from his home in Leesburg, he may occasionally be late. If he is going to be late, he will call a class member with an ETA. Students may also wish to know he keeps his cell phone in his car, connected to its audio system so they may call him with questions about his class attendance on 703-209-2032.

Honor Policy

The instructor, a graduate of the U. S. Air Force Academy, believes strongly in academic integrity. Students using someone else's work without proper attribution will be reported to GMU's Honor Council.

Disability Policy

The instructor who is disabled himself will do his best to make reasonable accommodations for all disabled students who provide him with GMU paperwork attesting to their disability.

GRADES

Grades will be determined through two graded exams and a short paper. Additionally, students may write an extra credit paper. All assignments will be graded on a standard 100-point scale and averaged to determine the final numerical grade. (Both exams will have 103 possible points, essentially giving students 3 points extra credit on each exam.) Letter grades probably will be set using the traditional grade scale of 90-100 A,

80 to 89 B, etc. Within each letter range the instructor will award some "+"s and "-s. For example, an 81 would be a B- and a 98 would be an A+.

Exams

The exams will combine multiple-choice questions, matching of terms and short-answer questions. Matching and multiple-choice questions will test students' knowledge of key economic terms mentioned in the readings and lectures. Each short-answer question will ask students to summarize one of the economic concepts mentioned in the text. Students will write their answers on the exam itself and do not need to bring blue books nor Scantron sheets. The instructor has already posted a study guide for the midterm exam on Blackboard. The midterm on March 8th will cover Chapters 1 through 9 in the Stiglitz-Rosengard text, class presentations and required readings for the sections on the U. S. income distribution, public choice and the legalization of marijuana. The final exam on May 15th will cover all material discussed after the midterm exam. The instructor will also post a study guide for it prior to the exam.

Paper(s)

The required paper should be from 4 to 5 pages (double-spaced) and present the student's understanding of how economics contributes to the design of public policies in one of the following areas:

- ♦ **Market Failures and Appropriate Government Responses (Chapter 4);**
- ♦ **Externalities and the Environment (Chapter 6);**
- ♦ **Income Inequality and Its Political Implications (special section);**
- ♦ **Evaluating Public Expenditures/Cost-Benefit Analysis (Chapter 11);**
- ♦ **Medical Care and Obamacare (Chapter 13);**
- ♦ **Social Security (Chapter 16) or**
- ♦ **Efficiency and Equity in Taxation (Chapters 17 and 18).**

Additionally, students may write a second paper for extra credit; this paper should also be from 4 to 5 pages. The extra credit paper may be used to replace any of the other three graded assignments although in the past most students have written an extra credit paper in order to skip the final exam. Students may use any of the topics above not used for their required paper or any other topics listed below for their extra credit paper:

- ♦ **"Public Choice" (Chapter 9);**
- ♦ **"Education and Welfare" (Chapters 14 and 15); or**
- ♦ **"Legalization of Marijuana" (February 24).**

Students wishing to write on another public policy issue should clear the topic with the instructor.

The required paper is due on May 5th. It may be brought to class or emailed to the instructor at the email addresses listed above. If students submit their papers via the instructor's GMU email address (wmcnaugh@gmu.edu), they should use "Student Name/Econ 309 Paper" for their subject heading. The extra credit paper is due on or before the date of the Final Exam on May 15th.

A sample paper discussing the size of government (Chapter 1) is available on Blackboard. Students may email a short (no more than 2 to 3 paragraphs) summary of their plans for their papers to the instructor for comment before writing their papers.

SCHEDULE

JAN 23: COURSE OVERVIEW

REQUIRED READING: SR (Chapter 1)

RECOMMENDED READING: EC (The Way Ahead)

JAN 25: MICROECONOMICS REVIEW

REQUIRED READING: GM (Forces of Supply and Demand)

RECOMMENDED READING: WM

JAN 27: GAINS FROM TRADE

REQUIRED READING: GM (Interdependence and Gains From Trade)

JAN 30: PUBLIC SECTOR RESPONSIBILITIES

REQUIRED READING: SR (Chapter 2)

FEB 1: MARKET EFFICIENCY

REQUIRED READING: SR (Chapter 3)

FEB 3: MARKET FAILURE (PART 1)

REQUIRED READING: SR (Chapter 4)

FEB 6: MARKET FAILURE (PART 2)

REQUIRED READING: SR (Chapter 4)

FEB 8: PUBLIC GOODS

REQUIRED READING: SR (Chapter 5)

FEB 10: EXTERNALITIES

REQUIRED READING: SR (Chapter 6)

RECOMMENDED READING: GM (Externalities)

FEB 13: CLIMATE CHANGE AS AN EXTERNALITY

REQUIRED READING: FI (Global Warming), FI (Public Policy Options)

RECOMMENDED READING: EC (Climate Change), FI (Politics of Global Warming)

FEB 15: AL GORE ON CLIMATE CHANGE

REQUIRED READING: MBN (Greenhouse Economics), EC (Second Best Solutions)

NOTE: Al Gore's movie, *An Inconvenient Truth*, viewed in class.

FEB 17: THE EFFICIENCY/EQUITY TRADEOFF

REQUIRED READING: SR (Chapter 7)

FEB 20: THE U. S. INCOME DISTRIBUTION (ECONOMICS)

REQUIRED READINGS: JG, KS and JS (Markets and Inequality)

RECOMMENDED READINGS: AS, RicF and TC

FEB 22: THE U. S. INCOME DISTRIBUTION (POLITICS)

REQUIRED READING: RbtF and JS (A Democracy in Peril)

RECOMMENDED READINGS: JR and NSP

FEB 24: MARIJUANA LEGALIZATION

REQUIRED READINGS: GM (Elasticity and Its Applications), esp. Figure 5-9, and EC (The Reeferatory Challenge)

RECOMMENDED READINGS: RD and MBN (Sex, Booze and Drugs)

FEB 27: PUBLIC PRODUCTION

REQUIRED READING: SR (Chapter 8)

MAR 1: PUBLIC CHOICE

REQUIRED READINGS: SR (Chapter 9) and WS

RECOMMENDED READINGS: JB and DM

MAR 3: THE FAIR EQUATIONS

RECOMMENDED READING: RayF

MAR 6: SESSION HELPING STUDENTS PREPARE FOR THE MIDTERM EXAM

READINGS: None

MAR 8: MIDTERM EXAM (covering chapters 1 through 9 and required readings for January 27, February 10, 13, 15, 20, 22 and 24 and March 1)

MAR 10: REVIEW OF MIDTERM RESULTS

NOTE: Graded midterms will be returned, students who did not take the midterm on the 8th should come prepared to take a makeup exam

MAR 13 THROUGH 17: NO CLASSES (SPRING BREAK)**MAR 20: FRAMEWORK FOR PUBLIC POLICY ANALYSIS**

REQUIRED READING: SR (Chapter 10)

MAR 22: COST-BENEFIT ANALYSIS (PART 1)

REQUIRED READING: SR (Chapter 11, pages 297-309)

MAR 24: COST-BENEFIT ANALYSIS (PART 2)

REQUIRED READING: SR (Chapter 11, pages 309-327)

MAR 27: DEFENSE EXPENDITURES

REQUIRED READING: SR (Chapter 12, pages 329-345)

MAR 29: RESEARCH AND TECHNOLOGY

REQUIRED READING: SR (Chapter 12, pages 345-355)

MAR 31: HEALTH CARE (PART 1)

REQUIRED READING: SR (Chapter 13)

APR 3: HEALTH CARE (PART 2)

REQUIRED READING: DC

APR 5: OBAMACARE

REQUIRED READINGS: PO and EC (Experimental Medicine)

RECOMMENDED READINGS: GL, MD and OW

APR 7: EDUCATION (ECONOMICS)

REQUIRED READING: SR (Chapter 14)

RECOMMENDED READINGS: DL and AD

APR 10: EDUCATION (COLLEGE SELECTION)

RECOMMENDED READINGS: EC (Where's Best), BW and MBN (Over \$1 Trillion in College Debt and Rising)

APR 12: WELFARE

REQUIRED READINGS: SR (Chapter 15), MBN (The Effects of the Minimum Wage)

RECOMMENDED READINGS: RicF and RB

APR 14: SOCIAL SECURITY (PART 1)

REQUIRED READING: SR (Chapter 16)

APR 17: SOCIAL SECURITY (PART 2)

REQUIRED READING: EC (Age Invaders)

RECOMMENDED READING: MB

APR 19: SOCIAL SECURITY (PART 3)

REQUIRED READING: NASI

NOTE: NASI Primer Reviewed in Class

APR 21: INTRODUCTION TO TAXATION

REQUIRED READING: SR (Chapter 17)

APR 24: INCIDENCE OF TAXATION

REQUIRED READING: SR (Chapter 18)

APR 26: TAXATION AND ECONOMIC EFFICIENCY

REQUIRED READINGS: SR (Chapter 19), MBN (The (Dis)incentives of Higher Taxes)

RECOMMENDED READING: GM (Application: The Costs of Taxation)

APR 28: OPTIMAL TAXATION

READING: SR (Chapter 20)

MAY 1: TAXATION OF CAPITAL

READING: SR (Chapter 21)

MAY 3: PERSONAL INCOME TAX

READING: SR (Chapter 22)

MAY 5: FISCAL DEFICITS AND GOVERNMENT DEBT

READING: SR (Chapter 28)

NOTE: Required papers due; session helping students prepare for final exam

MAY 15: FINAL EXAM (AT 9:00 A.M., NOT 7:30 A.M. AS STATED ON PATRIOT WEB)

NOTE: The final is not comprehensive but only covers Chapters 10 through 22 and 28 plus all supplementary required readings after the midterm; Required papers will be returned at the exam and extra-credit papers due