

Syllabus

George Mason University

Econ 330 Public Finance - Spring 2017

Professor Yong J Yoon

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

Office Hours: by Appointment

Class: Tues, Thursday 12:00 – 1:20pm, Krug Hall 204

Email: yyoon@gmu.edu, Webpage: Blackboard

Final Exam: 5/11, 10:30am-1:15pm

Overview

Modern democratic governments directly control more than a third of gross national product (GDP) and influence much of the rest through their fiscal and regulatory policies. The public sector economics is different from the private sector; in private sector economics or market economy, each person makes her choice, while in public sector economics one choice applies for all.

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.” (Now, what do you think about “No representation without taxation.”) **Public Finance** studies the fiscal aspects of the economy, such as government expenditures, taxation, and debt.

In this course, **Public Economics** includes traditional topics of public finance and the economic analysis of the public sector of the economy. However, I will interpret **Public Economics** broadly. In an age of global economy, we are concerned with the economic consequences of Brexit and EU, Abenomics, immigration, inequality, and **ethics and culture**, as well as domestic government policies on economic activities.

An important development in public economics has been to analyze the political processes (collective decision making) by which those policies are formed. This is the **public choice economics** founded by James Buchanan and Gordon Tullock. Both of them used to teach at GMU. I will also discuss the role of culture and economics in public economics.

The course aims to achieve two goals. (1) To provide students with the microeconomic tools to understand the impacts of those fiscal policies. (2) To introduce public choice that generate public policies that deal with critical economic and social issues. (3) the role of trust in public policies.

“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

Prerequisites: Intermediate Microeconomics (ECON 306)

Texts

Randy Holcombe, *Public sector economics: the role of government in the American economy*, Prentice Hall 2006 (main text)

Ariel Hillman, *Public Finance and Public Economics- responsibilities and limitations of government*, 2nd edition, Cambridge University Press 2009 (secondary reference)

Francis Fukuyama, *Trust: the social virtues and the creation of prosperity*, Free Press, 1995

Charles Murray. *Coming apart: the state of white America, 1960-2010*, Crown Forum 2012

Requirements and Grades

The grades are based on two midterms (15% each), final (40%), paper (20%), class participation (10%). **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**.

There will be **homework**, roughly one per week, which will count as 'class participation.' Homework is evaluated by effort rather than merit. The homework problems are posted on Blackboard. You will have one week to complete the problem and submit to me on the designated day in class, typically Thursday class. The key will be uploaded promptly. Your first homework is due on 2/2/17. Late homework will count as 50% when late by one day.

Attendance sheet. You will complete and submit in class on 4/27/17. at the end of the semester and submit to me at the last class meeting.

Due date for term paper is 5/4 in class. For a term **paper** you will write an essay based on Fukuyama' and Murray's books. One suggested topic is how to use the insights by Fukuyama and Murray in Public Economics. The paper can be 6-8 pages long. I encourage you may turn in a first draft in March for your benefit, though this is not mandatory. Your essay should follow a standard format. It should have introduction, main body, conclusion, and reference section.

The course is "lecture driven" in that most relevant material is covered in class. There will be handout (or PPT notes) in the class. On some topics there will **video** presentations. This will be fun! The topics are:

Supply, Demand, and Equilibrium
Elasticities and applications
Taxes and Subsidies,
Tariff and Protection,
Externalities,
Public goods and club goods
The tragedy of the commons.

Grade scale

A : 92 - 88, A- : 88-85

B+ : 85-82, B: 82 – 78, B-: 78-75

C+: 75-72, C: 72-68, C-: 68-65
D and F: below 65

Schedule of Topics (subject to revisions): H means Holcombe

Topic 1. introduction. Public sector v. private sector. H(1-2)

Overview of fiscal policy in the United States and OECD countries: growth of tax and expenditures, indicating increasing centralization

How to evaluate public sector. Positive and normative analysis: the Pareto principles, Cost-Benefit Analysis, Rational choice as an application of cost-benefit analysis

[Review of Economic Tools](#): The Net Benefit Maximizing Model of human choice, and the competitive theory of demand and supply, consumer surplus and profit. Introduction to Tax Analysis.

Evaluation of public sector. Private sector is market for private consumption goods. Main topic in price theory or microeconomics is that free market, voluntary exchange of private consumption goods, is efficiency. Spontaneous order vs planned order

Topic 2. [Principles of Tax Analysis](#) H(10, 11, 12, 13)

Impact of taxes on market prices and output; deadweight loss in the long and short run; neutral taxes and excess burden; Ramsay taxation, progressive and proportional income taxes and the labor-leisure tradeoff. Applications: property taxes, excise taxes, head taxes, and income taxes.

Read: [Taking Stock of Recent Economic Policies \(WSJ, Schultz et al\)](#)

Topic 3. [Principles of Expenditure Analysis](#): H(5, 8)

Impacts of subsidies on market equilibria, deadweight losses in the long and short run, conditional marginal and lump sum subsidies. Applications: farm subsidies, food stamps, rent subsidies, public education, and unemployment insurance.

Topic 4. Externalities and Public Goods: H(4, 5)

Externalities and Market Failures, Pigovian taxes. Applications: national defense, clean air and water, highways, welfare.

Public and Private Goods, the free rider problem; Pareto optimal supply of public goods, Samuelsonian and Lindahl Taxes; club goods

Tragedy of the common

Topic 5. The Electoral Demand for Public Goods (and Taxes): H(6, 7)

Honeybee democracy, Condorcet's Jury theorem.
The median voter model and the demand for public services.
Majority rule – cycling, Condorcet paradox.

Topic 6. Interest Groups and Public Policy: H(8, 9)

Bureaucracy as a Special Interest Group; Economic and Ideological Special Interests and Rent-Seeking Losses

Topic 7. Applications: The Welfare State, Social Security: H(20)

Entitlement Growth and the Baby Boomer. ([Feldstein on reform](#)); Applications: Deficits: H(17) AH(4.3)

Debt Finance as Intertemporal Taxation (Revenues, Expenditures, Deficits etc.) Recent Fiscal History, the Politics of Debt, Intergenerational Burden Shifting, Entitlement Deficits and the Baby Boomers

Topic 8. Application: Education: H(21)

Reading: Eric Hanushek, 'measuring investment in education' JEP Fall 1996

Larry Kenny and Amy Schmidt 'the decline of school districts in the US:1950-1980' public choice (April 1994):1-18

Milton Friedman. 'school voucher' in Capitalism and Freedom.

Caroline Hoxby. 'does competition among public schools benefit students and taxpayers?' (Dec 2000) AER

Robert Houston and Eugenia Toma, 'home schooling: an alternative school choice,' SEJ (April 2003)

Topic 9. Culture and Economics

Francis Fukuyama, *Trust: the social virtues and the creation of prosperity*, Free Press, 1995
Charles Murray. *Coming apart: the state of white America, 1960-2010*, Crown Forum 2012

Dates.

1st exam. 2/21 review; 2/23 exam

2nd exam. 3/28 review; 3/30 exam

Final. 5/4 review; 5/11, 10:30am-1:15pm Final

Problem set

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

Disability Statement: If you are a student with a disability and you need academic accommodations, please see me and contact the Office of Disability Resources at 703.993.2474. All academic accommodations must be arranged through that office.

Honor Code Statement