

Syllabus

George Mason University

Econ 330 Public Finance - Fall 2016

Professor Yong J Yoon

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

Office Hours: by Appointment

Class: 7:20 – 10:00pm Tue, Robinson Hall B111

Email: yyoon@gmu.edu, Webpage: Blackboard

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 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.

In this course, **Public Economics** includes traditional topics of public finance and the economic analysis of the public sector of the economy. Following the trend, I will interpret **Public Economics** broadly. In an age of global economy, we can apply economic tools to analyze the effect of Brexit, Abenomics, 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.

The course aims to achieve three goals. (1) To provide students with the microeconomic tools to understand the impacts of those fiscal policies. (2) To introduce public choice approach or political process that generates public policies. (3) To evaluate today’s critical economic and social issues.

“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 govenremnt*, 2nd edition, Cambridge University Press 2009

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

Assignments and Requirements and Grades

The grades are based on one midterm (30%), final (40%), paper (20%), class participation (10%). **Midterm and Final** exams will consist roughly 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. The evaluation will be based on effort rather than merit. The homework problems will be posted on Blackboard. You will have one week to complete the problem and submit to me in class.

For a term **paper** you will write a review essay of Murray's book. It will be 6-8 pages long. You may turn in a first draft before the Thanksgiving holiday for your benefit, though this is not mandatory.

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

Supply, Demand, and Equilibrium
Elasticities and applications
Taxes and Subsidies,
Tariff and Protection,
Externalities,
Public goods and 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; Hill means Hillman

8/30 introduction. Public sector v. private sector. H1-2, AH1

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

Positive and Normative Analysis: 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.

Private sector is market for private consumption goods. Main topic in price theory or microeconomics. Free market, voluntary exchange of private consumption goods.

Efficiency. spontaneous order vs planned order

9/6 H: 10, 11, 12, 13/ AH:4.1 , 9.1

Principles of Tax Analysis: 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 \(WSJ, Schultz et al\)](#)

9/13

9/20 **Principles of Expenditure Analysis:** H: 5, 8/AH: 5.1

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.

[Data from the Statistical Abstract of the United States](#)

9/27

10/4 **Discussion and Review for the First Exam** **Study Guide 1**

10/11 **midterm**

10/18 **Public Goods and Externalities:** H: 4, 5 and Hill: 3.1, 5.1, 5.2, 5.3

Public and Private Goods, the free rider problem; Pareto optimal supply of public goods, Samuelsonian and Lindahl Taxes; Externalities and Market Failures, Pigovian taxes. Applications: national defense, clean air and water, highways, welfare

Exams returned and reviewed. Discuss paper topic

10/25 **The Electoral Demand for Public Goods (and Taxes):** H: 4, 5/AH: 3.1, 5.1, 5.2, 5.3

The median voter model and the demand for public services.

11/1 **Interest Groups and Public Policy:** AH: 2.1, 2.2, 2.3

[Bureaucracy as a Special Interest Group; Economic and Ideological Special Interests and Rent-Seeking Losses](#)

[Public Finance and Relationships Between Governments:](#) H: 24 and Hill: 9.3

Voting with Your Feet (the Tiebout Model), Yardstick Competition, Decentralization, Intergovernmental Externalities and Economies of Scale (an optimal federal system). Applications: decentralization, fiscal federalism, capital flight. ([Pew on Central Gov as Source of State Revenues.](#))

11/8 **Applications: The Welfare State:** H 20/AH: 8

[Notes on Social Security,](#) [[Social Security Annual Report](#) , [\(OASDI History](#)], [Medicare Reforms](#) [[Medicare Annual Trustees Report CBO](#)] **[the Demand for Social Insurance:](#)**

Entitlement Growth and the Baby Boomer. ([Feldstein on reform](#))

Applications: Deficits: H17/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

Japanese sovereign debt – T. Ito

11/15 **Tax Reform:** H: 20, 22 /AH2: 8.1, 8.2, 8.3

[Notes on US Taxation,](#) [Co-Chairs Proposal to Balance the Budget / Camp Tax Reforms \(House 2014\),](#) [Repub Candidates 2015,](#) [History of Taxation in the US](#) , [Tax Museum and History](#) , Deficit Finance and the Bailouts of 2008-09

11/24 thanksgiving break no class (Read Murray)

11/29 Charles Murray's Coming Apart; first draft of review essay of Murray

12/6 Review; term paper

12/13 Final 7pm

*Articles to read

Taking stock of recent policies (wsj)

History of taxation in the US, tax museum and history

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