Syllabus – George Mason University

Econ 330 Public Finance - Fall 2018

Professor Yong J Yoon
Office: Roberts House upstairs west, (703) 993-2332
Office Hours: wed 5:00pm and by Appointment
Class: Robinson Hall B 111
Class hour: 7:20 – 10pm
First class, August 28, 2018 – last class, December 4, 2018
Email: yyoon@gmu.edu, Webpage: Blackboard
Final Exam: December 17, 7:30 – 10:15pm

Overview

The course provides a political economic analysis of government. 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. In analyzing the public sector, we note that the public sector economics is different from the private sector. In private sector economics, or market economy, each person makes her choice; in public sector economy one choice applies for all. That is, to fully understand the public economics, we have to understand the political system that generates public policies. (1)

Public Finance studies the fiscal aspects of the economy, such as government expenditures, taxation, and debt. Traditionally Public economics used to deal with taxation. Taxation is still the core issue of our subject. Taxation is a political issue as well. American Revolution started with the slogan “No taxation without representation.” (Now, what do you think about “No representation without taxation”?) The repeal of the Corn Laws changed the world. (2)

As government grew, a theory of public expenditures developed. (1) After World War II, an important development in public economics has been to analyze public sector decision-making process. This is the public choice economics founded by James Buchanan and Gordon Tullock. Both of them used to teach at GMU. Following their spirit, I will interpret Public Economics broadly. I will also discuss the role of institutions, ethics, and culture 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. We keep in mind the advice of Hayek in studying economics:

“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)


Note. We will find applications of public finance to the current issues.

Course

The course is lecture driven in that all the necessary information comes from my lectures. Lecture notes will be available on BB or distributed in class. I will follow Holcombe’s textbook closely. But some articles will be assigned for class discussion. I will sometimes use video presentation from: Tyler Cowen and Alex Tabarrok. Modern Principles: Macroeconomics. Worth Publisher, New York 2011. The basic topics from video are:

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

Course Requirements

Your course grade will be based on the following

1. Two midterm exams and a take-home final. No makeups.
2. Homework that include problem solving. No late homework. (50% if one day late).
3. One paper.
4. Class participation and attendance.

To summarize, your final letter grade will be based on the following raw scores:

1*. Midterm 1 (30%), midterm 2 (30%), take-home final exam (15%), homework (15%), and paper (10%). The final will be given on the last class and collected on the date of the final exam.

2*. Homework (15%) will include problem solving. Typically, homework is explained in class, collected the next class, and returned a week later. The paper is about 5 pages long and the topic is from one of the two books above for side reading.

3*. Attendance and group presentation. You will keep your own class attendance sheet (provided) and turn in on 12/4/18. High evaluation on this category will lift your grade by one notch, such as from B+ to A-.
Grades

An ‘A’ grade will be awarded if the student displays excellent knowledge of the appropriate economic theory and is able to apply it correctly to analyze problems in public economics. The student is also expected to be able to write clear and grammatically correct English.

A ‘B’ grade will be awarded if the student’s performance is between A and C described here.

A ‘C’ grade will be awarded if the student displays some knowledge of the appropriate economic theory and makes an attempt to apply it correctly to analyze problems in public economics.

Plus and minus grades apply to students whose work falls between these categories.

Some important dates

First day of classes: 8/28
Midterm I: 10/2
Paper due: 11/13
No class on the thanksgiving week: 11/20
Midterm II: 11/27
Last day of class explains the final: 12/4
Final Exam: 12/4, Take home, due: 12/18 in class,

Schedule of Topics (subject to revisions):
I will follow Holcombe’s textbook closely. H means Holcombe. Also, please allow me to change this outline as we go along.


Overview of fiscal policy in the United States and OECD countries: growth of tax and expenditures, indicating increasing centralization. (3)

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


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 Lindalh Taxes; private provision of public goods

Tragedy of the common


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


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

Review for midterm-1


Midterm-1 returned and reviewed.

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: Trump’s corporate tax, Bill Gates on robot tax, Trumps’ trade war

10/16. **Topic 7: Import and Export taxes, Income tax** H(12, 13, 14, 15)

Trump’s trade war. Corporate Taxation H(15)
Recent Fiscal History, the Politics of Debt, Intergenerational Burden Shifting, Entitlement Deficits and the Baby Boomers

10/23. Topic 8: Tax Reform H (16)


  Discussion will include the current issues on Inequality.


11/20. Thanksgiving week. No class

11/27. Midterm-2


Problem set

  1. Supply and demand and market equilibrium
  2. Tax shifting – algebra and geometry
  3. Excess burden from taxation
  4. Tragedy of the commons – rules v. discretion
  5. Public goods provision
  6. Externalities and corrective tax
  7. Voting model Fiscal commons and voting
  8. Fiscal commons and voting
  9. Luncheon club
  10. Health insurance
  11. Social security – compound interest
  12. Tax reform – consumption tax
  13. 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

12/18/17; 1/23/18