BOSTON COLLEGE  
Department of Economics

EC 365.01 Public Finance          Richard Tresch  
TTh 12:00                           480K, 21 Campanella Way; x2-3671  
Fall 2011                           Tresch@bc.edu  
                                          Office Hours: Flexible--drop in or  
                                          contact me for a meeting time

Syllabus

Course Requirements: Hour Examination (60 points), Tuesday October 25.  
      Final Examination (90 points), Monday, December 19, 12:30.

Note: There are two paper options that substitute for the hour examination, but you must take the final examination:

1) You may substitute a short paper (≤10 pages) for the hour examination; the weights are short paper = 40%, final examination = 60%

2) You may substitute a long paper (≤20 pages) for the hour examination; the weights are long paper = 50%, final examination = 50%.

The short paper is due by noon on Wednesday, December 14, the first exam day. The long paper is due on the date of the final examination, Monday, December 19. You may write a paper, either short or long, only if you have discussed or presented your topic and research plans with me by Friday, November 4. Finally, I suggest, but do not require, that you hand me in a draft of your paper at least one week before the due date so that I can offer some comments and suggestions before you write the final draft. I will also gladly discuss your ideas with you as they are developing.

Textbook: Richard W. Tresch, Public Sector Economics--required (referred to below as Tresch)

Internet Site: The textbook has a companion Website that contains: 1) a set of examples to accompany most of the chapters; 2) chapter summaries; and 3) end-of-chapter questions. To access this material, go to the website for Public Sector Economics at www.palgrave.com/economics/tresch and follow the prompts. The material is downloaded to your computer as pdf files.
I. Introduction

A. Philosophical Underpinnings: What Should Governments Do, and Why?
   Tresch, Ch. 1.
   Example 1.1-The European Roots of Modern Public Sector Economics

B. Market Failures
   Tresch, Ch. 2.
   Example 2.1- Changes in the U.S. Government: Expenditures and Revenues
   Example 2.2- Government Sectors in the Industrialized Market Economies

C. The Two Fundamental Theorems of Welfare Economics
   Tresch, Ch. 3 (as needed; a review of material from Micro Theory).

II. Public Expenditures

A. The Distribution of Income and the Social Welfare Function
   Tresch, Chs. 4 and 5.
   Example 4.1- Great Britain’s Community Charge
   Example 4.2- Happiness Surveys
   Example 5.1- Social Mobility in the United States
   Example 5.2- Equality in Europe vs. The United States

B. Externalities and Public Goods
   Tresch, Chs. 6, 7, and 8.
   Example 6.1- Education Vouchers
   Example 7.1- Avoiding the Tragedy of the Commons in Fishing with Individual Transferable Quotas
   Example 7.2- Reducing Greenhouse Gases: The European Union's Emissions Trading System
   Example 7.3- The Superfund
   Example 7.4- Pricing Traffic Congestion in Singapore and London
   Example 8.1- The Kyoto Protocol
   Example 8.2- The Economics of Terrorism: Externalities and Strategic Interaction
   Example 8.3- Defense Expenditures and the Samuelson Rule
   Example 8.4- The Copenhagen Accord

C. Decreasing Cost Services
   Tresch, Ch. 9.
   Example 9.1- The Huge U.S. Rail Transit Deficits
   Example 9.2- Cable TV
D. Transfer Payments

1. Public Assistance to the Poor
   Tresch, Chs. 10 and 11.
   Example 10.1- Health Care Reform
   Example 11.1- The Take-Up of Public Assistance Programs
   Example 11.2- Welfare to Work: the Case of the UK Working Families Tax Credit (WFTC)

2. Social Insurance and Social Security
   Tresch, Ch. 12.
   Example 12.1- New Orleans After Hurricane Katrina
   Example 12.2- On Large Federal Budget Deficits
   Example 12.3- Medicare
   Example 12.4- Adverse Selection in Annuity Markets
   Example 12.5- The 2008 Financial Crisis
   Example 12.6- The Wall Street Reform and the Consumer Protection Act (The Dodd-Frank Act)

III. Taxation

A. Taxation and Equity

1. The Ability-to-Pay Principle and the Appropriate Tax Base: Income or Consumption?
   Tresch, Ch.13.
   Example 13.1- State Lotteries

2. The Federal Personal Income Tax: Applying Ability-to-Pay Principles
   Tresch, Ch. 14.
   Example 14.1- Tax Expenditures
   Example 14.2- Do Tax Incentives to Encourage Saving Actually Increase Saving?
   Example 14.3—Tax Reform

B. Taxation and Efficiency: Dead-weight Efficiency Loss
   Tresch, Chs. 15 and Ch. 16 (pp. 311-314).
   Example 15.1- The Welfare Cost of Subsidies to Home Ownership in the Netherlands
   Example 15.2- Investment Incentives Under the U.S. Corporation Income Tax

C. The Trade-off Between Equity and Efficiency
   Tresch, Ch. 16 (pp. 314-323).
   Example 16.1- Taxing Internet Transactions
   Example 16.2- Income Taxation and the Trade-off Between Efficiency and Equity
D. Problems with Taxes and Transfers Under Private Information
   *Tresch*, Ch. 17.
   Example 17.1- Who Underpays Income Taxes in the United States
   Example 17.2- Shadow Economies Throughout the World

E. Tax Incidence
   *Tresch*, Chs. 18 and 19.
   Example 18.1- Taxation and Alcohol Sales in Ireland
   Example 19.1- The Value Added Tax

IV. Cost-Benefit Analysis
   *Tresch*, Ch. 20.
   Example 20.1- Social Discounting and the Economics of Climate Change
   Example 20.2- Does the Clean Air Act Pass a Cost-Benefit Test?
   Example 20.3- Justifying Public Subsidies to Professional Sports Teams with Economic Impact Analyses
   Example 20.4- The Costs of Crime
   Example 20.5- The Value of a Life

V. Fiscal Federalism
   A. Assigning the Functions of Government Within the Fiscal Hierarchy
      *Tresch*, Ch. 21.
      Example 21.1- Private Contracting for City Services
      Example 21.2- The Move Towards Decentralization

   B. Problems Associated with a Mobile Population and Mobile Capital
      *Tresch*, Ch. 22.
      Example 22.1- Tax Competition in the EU and the European Court of Justice
      Example 22.2- How Important is Tiebout Sorting in the United States

   C. Grants-in-Aid
      *Tresch*, Ch. 23.
      Example 23.1- Grants-in-aid in the European Union

VI. Behavioral Public Sector Economics: the New Frontier
   *Tresch*, Epilogue.
   Example Epilogue- Implementing the New Behavioral Economics: the U.K. National Pension Saving Scheme
**Academic Integrity**
Your work on exams and papers is to be entirely your own. Be sure you are familiar with the sections on "Academic Integrity" in the Boston College Catalog (pp. 35-36) or online at BCInfo, (A-Z index, Academic Integrity). Be aware that I take this most seriously.