

BOSTON COLLEGE
Department of Economics

EC 365.01 – Fall 2001
Public Finance

C. Schneider

This is a course in the microeconomics of the public sector. We will discuss the rationale for the government's role in a market economy, major expenditure programs, and the theory and structure of the tax system. Because of time constraints, we will focus primarily on the federal government's tax and expenditure programs.

We will use many of the tools and techniques of microeconomic theory to analyze government programs, so EC 201 (or EC 203) is a prerequisite for the course. If you plan to take this course concurrently with EC 201, you should discuss your course load with me first.

You are responsible for all material covered in lectures, the readings assigned below, and the news articles in the "EC 365 - Current Events" files. The text, *Public Finance and the American Economy*, 2nd ed., by Neil Bruce, is available in the college bookstore. The additional readings have been compiled into a course anthology that is also available at the bookstore. A copy of the anthology and the "Current Events" files are on reserve at the Reserve Desk in O'Neill.

Because it is important that you be able to communicate information both in writing and orally, course grades will be based on your performance on written exams and class participation. Class participation includes class attendance. The weights for the various components will be: mid-term exams - 25% each, comprehensive final - 30%, and class participation - 20%. The mid-term exams are scheduled for **Thursday, October 4** (following Section IIC) and **Tuesday, November 6** (following Section IIID) **from 7:30 to 9:00 in the evening**. The final is scheduled for **Thursday, December 13, at 9:00 AM**.

All the policies of the College of Arts and Sciences with regard to grading, attendance, make-up exams, and academic integrity apply. (Statements of these are printed in *The Boston College Bulletin, 2001 - 2002*, pages 31-32 and 39-40.) If you are unable to attend class for a prolonged period of time, please notify me as soon as possible.

My office is Carney 145, and the telephone extension is 2-3786. My e-mail address is catherine.schneider@bc.edu. Office hours will be Tuesday, 9:30 - 11:30 AM; Thursday, 1:00-3:00 PM; and by appointment.

SYLLABUS

- I. Introductory Material
 - A. Overview of Public Sector (9/5 – 9/10)
 - Bruce, Ch. 1
 - Musgrave, "Reconsidering the Fiscal Role of Government," *The American Economic Review*, May 1997
 - B. Analytical Tools for Public Sector Economics (9/12 – 9/14)
 - Bruce, Ch. 2, including the Appendix

- II. Resource Allocation
 - A. Public Goods (9/17 – 9/21)
 - Bruce, Ch. 3
 - Coase, "The Lighthouse in Economics," *Journal of Law and Economics*, October 1974
 - B. Public Choice (9/24 – 9/26)
 - Bruce, Ch. 5, pp. 121 - 144
 - Kelman, "'Public Choice' and Public Spirit," *The Public Interest*, Spring 1987
 - C. Externalities (9/28 – 10/3)
 - Rosen, Ch. 4
 - Stavins, "What Can We Learn From the Grand Policy Experiment? Lessons from SO₂ Allowance Trading," *Journal of Economic Perspectives*, Summer 1998

- III. Topics in Expenditure Analysis
 - A. Income Distribution (10/5 – 10/10)
 - Bruce, Ch. 7
 - B. Anti-Poverty Programs (10/12 – 10/17)
 - Bruce, Ch. 8
 - Haveman and Mullikin, "Alternatives to the Official Poverty Measure: Perspectives and Assessment," <http://www.ssc.wisc.edu/irp/research/methodshome.htm#povconf>
 - Blank, "Fighting Poverty: Lessons from Recent U.S. History," *Journal of Economic Perspectives*, Spring 2000
 - C. Social Insurance (10/19 – 10/29)
 - Bruce, 9
 - Munnell, "Reforming Social Security," *National Tax Journal*, December 1999
 - McClellan, "Medicare Reform," *Journal of Economic Perspectives*, Spring 2000
 - D. Cost/Benefit Analysis (10/31 – 11/5)
 - Bruce, Ch. 6
 - Brennan, "Discounting the Future: Economics and Ethics," *Resources*, Summer 1995

- IV. Framework for Tax Analysis
 - A. Taxes and Resource Allocation (11/7 – 11/9)
 - Bruce, Ch. 10
 - B. Tax Incidence (11/12 – 11/14)
 - Bruce, Ch. 11, pp. 325 – 344
 - Fullerton & Rogers, “Neglected Effects on the Uses Side: Even a Uniform Tax Would Change Relative Goods Prices, *American Economic Review*, May 1997
 - C. Tax Efficiency (11/16 – 11/19)
 - Bruce, Ch. 12, pp. 353 – 378, plus the Appendix

- V. Topics in Federal Taxation
 - A. Personal Income Tax (11/26 – 11/28)
 - Bruce, Ch.13
 - Alm, et al., “Policy Watch: The Marriage Penalty,” *The Journal of Economic Perspectives*, Summer 1999
 - B. Behavioral Effects of the Income Tax (11/30 – 12/5)
 - Bruce, Ch. 14, including the Appendix
 - Auerbach & Slemrod, "The Economic Effects of the Tax Reform Act of 1986," *Journal of Economic Literature*, June 1997
 - C. Budget Surpluses and Deficits (12/7 – 12/10)
 - Bruce, Ch. 16
 - Alesina, “The Political Economy of the Budget Surplus in the United States,” *Journal of Economic Perspectives*, Summer 2000