

**BOSTON COLLEGE**  
Department of Economics

EC 365.01 - Fall 1998  
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*, 5th ed., by Harvey Rosen, 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. The video is on reserve at the Media Center 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 **Tuesday, October 6** (following Section IIC) and **Tuesday, November 3** (following Section IIIC) **from 7:30 to 9:00 in the evening**. The final is scheduled for **Thursday, December 17, at 12:30 PM**.

If you are unable to take an exam or to attend class for a prolonged period, please notify me as soon as possible. Make-up exams will be given only for excused absences, and verification of the excuse may be required. Please read the College of Arts & Sciences policy on class attendance and make-ups found in *The Boston College Catalog, 1998 - 1999*, p. 34.

The University policy on grading and the College of Arts & Sciences policy on academic honesty, described in the *Catalog* on p.27 and p. 34, apply.

My office is Carney 144, 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; Wednesday, 1:00 - 2:00 PM; Thursday, 1:00-2:30 PM; and by appointment.

## SYLLABUS

- I. Introductory Material
  - A. Overview of Public Sector (9/2 - 9/9)
    - Rosen, Chs. 2 & 7 (pp. 141-150)
    - Musgrave, "Reconsidering the Fiscal Role of Government," *The American Economic Review*, May 1997
  - B. Analytical Tools for Public Sector Economics (9/11 - 9/14)
    - Rosen, Ch. 4
    - Stiglitz, "The Private Uses of Public Interests," *The Journal of Economic Perspectives*, Spring 1998
  
- II. Role of the Public Sector
  - A. Public Goods & Public Choice (9/16-9/23)
    - Rosen, Chs. 5 (pp. 61-74) & 7 (pp. 119-137)
    - Coase, "The Lighthouse in Economics," *Journal of Law and Economics*, October 1974
    - Kelman, "'Public Choice' and Public Spirit," *The Public Interest*, Spring 1987
  - B. Externalities (9/25 - 9/30)
    - Rosen, Ch. 6
    - Stavins and Whitehead, "Dealing with Pollution," *Environment*, September 1992
    - Ruffin, "Externalities, Markets, and Government Policy," Federal Reserve Bank of Dallas *Economic Review*, Third Quarter, 1996
  - C. Income Distribution (10/2)
    - Rosen, Ch. 8 (pp. 152-164)
    - Triest, "Has Poverty Gotten Worse?" *The Journal of Economic Perspectives*, Winter 1998
  
- III. Public Expenditures - Selected Topics
  - A. Transfer Programs (10/5 - 10/9)
    - Rosen, Ch. 8 (pp. 164-171) & 9
    - Eissa and Liebman, "Labor Supply Response to the Earned Income Tax Credit," *Quarterly Journal of Economics*, May 1996
  - B. Social Insurance (10/14 - 10/23)
    - Rosen, Chs. 10 & 11
    - Kotlikoff & Sachs, Aaron, "Privatizing Social Security," *The Brookings Review*, Summer 1997
    - Quinn, Burkhauser and Myers, *Passing the Torch: The Influence of Economic Incentives on Work and Retirement*, Ch. 2 (pp. 53-62)
    - "The Future of Medicare", National Economists Club video, 1997
  - C. Cost/Benefit Analysis (10/26 - 10/30)
    - Rosen, Ch. 12, Appendix to Ch. 4
    - Brennan, "Discounting the Future: Economics and Ethics," *Resources*, Summer 1995

- IV. Framework for Tax Analysis
  - A. Tax Incidence (11/2 - 11/6)
    - Rosen, Ch. 13
  - B. Tax Efficiency (11/9 - 11/13)
    - Rosen, Ch. 14
  
- V. Financing Government Expenditures
  - A. Personal Income Tax (11/16 - 11/30)
    - Rosen, Chs. 16 & 17 (pp. 399-420)
    - Auerbach & Slemrod, "The Economic Effects of the Tax Reform Act of 1986," *Journal of Economic Literature*, June 1997
  - B. Deficit Financing (12/2 - 12/7)
    - Rosen, Ch. 19
    - Schultze, "Of Wolves, Termites and Pussycats," *The Brookings Review*, Summer 1989