Syllabus

Course Requirements: Hour Examination (60 points), Thursday, October 24. Final Examination (90 points), Friday, December 20, 12:30.

Paper Options: 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 Friday, December 13, the last study day. The long paper is due on the date of the final examination, Friday, December 20. You may write a paper, either short or long, only if you have discussed your topic and research plans with me by Friday, November 8. Finally, I suggest, but do not require, that you submit to me 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.

NB:
1). If you choose to take the hour exam, then you cannot write a paper.
2). If you choose not to take the hour exam, then you are declaring your intent to write a paper. Do not, then, miss the November 8 deadline to discuss the paper with me or you will suffer at least a full grade penalty on the paper, with the penalty increasing sharply the longer you delay after November 8. You must also declare by November 8 whether you are writing a short or long paper.
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](http://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 Lump-sum 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 and 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 or online at BCInfo, (A-Z index, Academic Integrity). Be aware that I take this most seriously.