

BOSTON COLLEGE
Department of Economics

EC 365.01 – Public Finance
Spring 2004
MWF 10; Campion 200

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*, 6th 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.

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 a group presentation (details to be discussed in the first week of class) and 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 tentatively scheduled for **Tuesday, February 24** (following Section IIC) and **Thursday, April 1** (following Section IIIC) **from 7:30 to 9:00 in the evening**. The final is scheduled for **Saturday, May 15, at 9:00 AM**.

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 University policy on class attendance and make-ups found in *The Boston College Bulletin, 2003 - 2004*, p. 33 (also www.bc.edu/bc_org/avp/enmgt/stserv/acd/univ.html#attendance).

The University policies academic integrity and on grading, described in the *Bulletin* on pp. 31-33 and p. 37, apply. These policies can also be reviewed at www.bc.edu/bc_org/avp/enmgt/stserv/acd/univ.html#integrity and ...#grading.

My office is Room 468, 21 Campanella Way, and the telephone extension is 2-3786. My e-mail address is catherine.schneider@bc.edu. Office hours will be Monday, 1:00 – 2:30 PM; Tuesday, 9:30 - 11:30 AM; Thursday, 1:00-2:30 PM; and by appointment.

SYLLABUS

- I. Introductory Material
 - A. Overview of Public Sector (1/21 – 1/26)
 - Rosen, Chs. 1 & 6 (pp. 126 - 133); skim Ch. 2
 - Musgrave, "Reconsidering the Fiscal Role of Government," *The American Economic Review*, May 1997
 - B. Analytical Tools for Public Sector Economics (1/28 – 1/30)
 - Rosen, Ch. 3

- II. Role of the Public Sector
 - A. Public Goods & Public Choice (2/2 – 2/11)
 - Rosen, Chs. 4 (pp. 55 - 69) & 6 (pp. 106 - 117)
 - 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 (2/13 – 2/18)
 - Rosen, Ch. 5
 - Stavins, "Market-Based Environmental Policies," *Public Policies for Environmental Protection*, ed. Portney and Stavins, pp. 31 - 41
 - C. Income Distribution (2/20)
 - Rosen, Ch. 7 (pp. 136 - 148)
 - Haveman and Mulliken, "Alternatives to the Official Poverty Measure: Perspectives and Assessment," <http://www.ssc.wisc.edu/irp/research/methodshome.htm#povconf>

- III. Public Expenditures - Selected Topics
 - A. Transfer Programs (2/25 – 3/10)
 - Rosen, Ch. 7 (pp. 149 - 154) & 8
 - Moffitt, "The Negative Income Tax and the Evolution of U.S. Welfare Policy," *Journal of Economic Perspectives*, Summer 2003
 - B. Social Insurance (3/12 – 3/22)
 - Rosen, Chs. 9 & 10
 - Munnell, "Reforming Social Security," *National Tax Journal*, December 1999
 - Cogan and Mitchell, "Perspectives from the President's Commission on Social Security Reform," *Journal of Economic Perspectives*, Spring 2003
 - McClellan, "Medicare Reform: Fundamental Problems, Incremental Steps," *Journal of Economic Perspectives*, Spring 2000
 - C. Cost/Benefit Analysis (3/24 – 3/29)
 - Rosen, Ch. 11, Appendix to Ch. 4
 - Brennan, "Discounting the Future: Economics and Ethics," *Resources*, Summer 1995

- IV. Framework for Tax Analysis
 - A. Tax Incidence (4/2 – 4/7)
 - Rosen, Ch. 12
 - Besley and Rosen, "Sales Taxes and Prices," *National Tax Journal*, June 1999
 - B. Tax Efficiency (4/14 – 4/16)
 - Rosen, Ch. 13

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- V. Financing Government Expenditures
 - A. Personal Income Tax (4/21 – 4/30)
 - Rosen, Chs. 15 & 16 (pp. 373 - 392)
 - Alm, et al., “Policy Watch: The Marriage Penalty,” *The Journal of Economic Perspectives*, Summer 1999
 - Auerbach & Slemrod, "The Economic Effects of the Tax Reform Act of 1986," *Journal of Economic Literature*, June 1997
 - B. Deficit Financing (5/3 – 5/5)
 - Rosen, Ch. 18
 - Rubin et al, “Sustained Budget Deficits: Longer-Run U.S. Economic Performance and the Risk of Financial and Fiscal Disarray,” Paper presented at the AEA-NAEFA Joint Session, Allied Social Science Associations Annual Meetings, January 4, 2004