

**DEPARTMENT:** Economics

**COURSE NUMBER:** 434

**SEMESTER:** Fall 2019

**CREDIT HOURS:** 3

**COURSE TITLE:** Public Finance

**COURSE TIME:** PAIS 230: Monday/Wednesday 4:00-5:15 PM

**OFFICE HOURS:** PAIS 570: Monday 3:00-3:55/ Friday 1:30-4 PM

**INSTRUCTOR NAME** Chris Cunningham, PhD

**INSTRUCTOR CONTACT INFORMATION**

**EMAIL:** [crcunn2@emory.edu](mailto:crcunn2@emory.edu) back-up email: ccunnin75@gmail.com

**PHONE:** (m) 404-664-3602 (only to be used in an emergency)

**SCHOOL ADDRESS OR MAILBOX LOCATION:** Rich/Econ Department

**COURSE DESCRIPTION**

This course provides an introduction to public finance/public economics. It covers public expenditures, taxation, social welfare, social insurance and benefit/cost analysis, fiscal federalism, state and local public

**EVALUATION**

Class participation and discussion	10
In class presentation of existing article	5
Problem sets (x5/drop lowest score)	20
Policy Brief (rough draft due: 10/16, final 12/3)	20
Midterms (x3: 10/9, 11/20 12/9)	45

Written work will be evaluated on: substantive merit, rated in terms of the guidelines laid out for each assignment. Assignments must be well written, clear, and polished – always re-read your work. Figures must be labeled on axis.

Problem sets are due in hard copy by the beginning of class in which they are due. Late submission will result in a reduction of the assignment score by 10% per day.

**ACADEMIC HONOR CODE**

Emory requires that all material submitted by a student in fulfilling his or her academic course of study must be the original work of the student. Failure to comply with the honor code will result, at a minimum, in a failure of the assignment and possibly the class.

<http://catalog.college.emory.edu/academic/policies-regulations/honor-code.html>

## **LEARNING OBJECTIVES**

After successfully completing this course, students will be able to:

1. Identify public goods, positive and negative externalities
2. Identify when the government should intervene in the economy and the possible costs of intervention
3. Summarize the main federal, state and local public expenditure programs
4. Summarize the main federal, state and local public tax and revenue sources
5. Maximize social welfare within the constraints of a model
6. Critically assess policy debates about public programs and taxes
7. Conduct benefit/cost analysis

## COURSE OVERVIEW

The course consists of an interactive lecture, which is instructor lead.

Please do not use computers or phones during class unless requested to do so. Use without permission will affect participation grade.

Prerequisites: Economics 201 (Intermediate Microeconomics)

**Textbook:** Richard W. Treasch, *Public Sector Economics*, Palgrave Macmillan, 2008.

We may supplement this text with journal articles and excerpts from other textbooks, I will provide these as handouts if I can obtain the rights to them:

- Jonathan Gruber, *Public Finance and Public Policy*, Worth Publishers, Third Edition, 2010. Textbook Website (Student Center): [http://bcs.worthpublishers.com/gruber3e/default.asp#t\\_544924](http://bcs.worthpublishers.com/gruber3e/default.asp#t_544924)

-Harvey S. Rosen & Ted Gayer, *Public Finance*, 9Th edition, McGraw-Hill, 2010

This course will utilize your Econ 201 skills, so it may be useful to review those note beforehand and to keep them accessible throughout the course

In addition, we will review a number of academic journal articles and articles from the popular press that will be posted to Canvas or handed out in class. As Emory students you have access to almost all economic journals ever published and will be expected to find the articles.

Finally, this course will, where possible, tie-in to current topics in public policy or use the tools of economics to evaluate current or proposed policies. Useful sources for staying informed about public issues include: the Congressional Budget Office (a national treasure), the Joint Committee on Taxation, the Congressional Research Service and the Brookings-Urban joint center on Taxation, and the Penn-Wharton Budget Model. Excellent sources of credible reporting on current policy debates include The New York Times, The Washington Post, The Wall Street Journal, The Financial Times, Reuters and Bloomberg. We will also touch on topics related to local public finance. The AJC, and the Saporta Report cover state and Atlanta policy issues. Finally, public economics is used (and often misused) to shape or advocate for certain policies, programs and tax rates and structures. Opinion essays, blogs and white pages worth your consideration can often be found at the National Tax Association, Brookings Institution, the Urban Institute, the American Enterprise Institute, The Roosevelt Institute, the Nikasen Institute, Cato Institute, Center for Budget and Policy Priorities and in the op-ed pages of the NYT, Bloomberg View, the Financial Times and the Atlantic. Thoughtful websites include: Vox, Reason, Marginal Revolution and John Cochran's blog, Economist View, Liberty Street, Strong Towns, among others.

## REQUIREMENTS

### Participation

You are expected to be an active and prepared participant in each class. How much you get out of the course depends on your preparation and engagement. I will employ the Socratic method (I will call on people randomly) to facilitate discussion, gauge understanding, and encourage preparation and will track the quality of your response.

### In class summary of published economics article

All students will be required to present and summarize an article in public economics. The presenter should briefly identify the research question, the methods used, the main econometric challenges if an empirical paper, and the central findings. Good sources for this assignment include the Journal of Public Economics, American Economic Journal-Applied, American Economic Journal-Policy, National Tax Journal, Journal of Urban Economics, the Journal of Regional Science and Urban Economics, Journal of Human Resources, and the top-five general interest journals. Also, the Journal of Economic Perspectives is sure to have accessible articles.

### Readings

Readings are indicated in the syllabus and must be completed before the class when they are due. Lectures are designed to complement, not replace, the reading. Any material covered in the reading, whether covered by a lecture or class could appear on the exams. At the same time, class discussions may end up on the exams as well.

### Problem Sets

There will be 5 assignments. These are practical exercises in using the methodological skills presented in the course. You may work with others, but you must turn in your own assignment and list any individuals you worked with on the assignment. You must show your work. Submitting the correct answer, without showing how you obtained it, will result in zero points, whereas an answer that correctly frames the question, and attempts to solve it but makes an arithmetic mistake or simply gets stuck, will receive close to full credit.

### Policy Brief

You will prepare one brief that analyzes a government policy at the federal, state or local level (US or international) of your choosing and utilizing the economic tools developed in class. This work should be completed independently. The brief will contain a short description of the current or proposed program/tax/fee/project and will highlight the pros and cons of the policy. The brief should conclude with a policy recommendation informed by the evidence and your economic insights and employing your economics tool kit. You will include references. Try to keep the policy subject to evaluation small and discrete—"the efficacy of the mortgage tax deduction in promoting homeownership", not "COMPREHENSIVE TAX REFORM." Guidelines for referencing the literature and further details about the assignments will be distributed through Canvas. The analysis should be clear and concise and should not exceed 10 double-spaced pages. The writing process will be broken up, I will ask for a topic sentence, then an introductory paragraph, then a first draft and then final draft. Your grade on the brief will be 1/3 of the first draft and 2/3<sup>rd</sup> of the final draft. Good models include reports prepared by the Congressional Research Service, the Congressional Budget Office, Economic Reviews from the Federal Reserve Banks and certain NBER reports.

### Honor code

All student conduct is governed by the honor code:

<http://oxford.emory.edu/catalog/regulations/honor-code.html>

## **Course Policies**

*Grading Policy for Disputed Grades:* Requests to review the grading of an exam must be made in writing within one week of the exam being returned. The entire exam will be re-graded so it is at least possible that any

*Unforeseen Circumstances:* If you miss an exam or are late turning in the paper due to *unforeseen* reasons, you will be accommodated if I deem the reason valid (illness, accident, etc.). Depending on the circumstances, accommodation may be in form of waived requirements or makeup exams. Zero points will be awarded otherwise.

*Attendance:* You are strongly encouraged to attend every class. Some exam questions may turn exclusively on class lecture and discussion. Class participation will count (modestly) toward your grade and may inform my decision regarding the treatment of unforeseen circumstances or knife-edge letter grades.

*Disabilities/ Accommodations:* If you have specific physical, psychiatric or learning disabilities and require accommodations, please let me know early in the semester so that your learning needs may be appropriately met. You will need to provide documentation of your disability to office of Accessibility Services.

*Caveats:* The course outline below is tentative. I will update the schedule and assignments on the syllabus on canvas. Should a discrepancy arise between this document and the canvas syllabus, the canvas syllabus should be considered operative.

2019 Syllabus – Public Finance [Provisional Schedule] –If in conflict with online Syllabus, defer to that one.

Date	Topic	Corresponding reading
<b>Section 1: public finance – the big picture and review</b>		
<b>August 28</b> Intro	Introduction, rate of time preference hyperbolic discounting, the role of the instructor and the student, roadmap for the term. Utilitarian/Rawlsian framework of public finance.	
<b>September 4</b> Lecture 1	Review First and Second Welfare Theorem and Market failures	Tresch 1 and 2.
<b>September 9</b> Lecture 2	Externalities –the case for intervention	Tresch 6.
<b>September 11</b> Lecture 3	Coase and empirical study of externalities (Lojack and positive externalities)	Tresch 7. /Ayres, Levitt 1998.
<b>Section 2: public goods</b>		
<b>September 16</b> Lecture 4	Public (non-excludable) goods	Tresch 8.
<b>September 18</b> Lecture 5	Paying for public goods <b>[PS 1 DUE]</b>	Tresch 8.
<b>Section 3: political economy/ Public choice</b>		
<b>September 23</b> Lecture 6	Public choice	Supplemental
<b>September 25</b> Lecture 6	Arrow’s impossibility theorem and Brexit <b>[topic sentence for policy brief due]</b>	Supplemental
<b>Section 4: transfers and social insurance</b>		
<b>September 30</b> Lecture 9	Income Distribution and policy	Tresch 4.
<b>October 2</b> Lecture 10	Welfare Policy <b>[PS 2 DUE]</b>	Tresch 5.
<b>October 7</b> Lecture 11	Welfare reform 20 years later	Handout
<b>October 9</b> Lecture 12	<b>Exam 1: Public Expenditures</b>	
<b>October 16</b> Lecture 13	Health Insurance: private [Rough draft of policy brief due]	Gruber 15.
<b>October 21</b>	Health Insurance: public	Gruber 16.
<b>Section 5: taxation</b>		
<b>October 23</b> Lecture 14	Taxes, tax “fairness” and tax base <b>[PS 3 DUE]</b>	Tresch 13.
<b>October 28</b> Lecture 15	Personal income tax	Tresch 14.
<b>October 30</b> Lecture 16	Tax Incidence and Excess Burden	Tresch, 15.

<b>November 4</b> Lecture 17	Optimal Taxation <b>[PS 4 DUE]</b>	Tresch, 16.
<b>November 6</b> Lecture 21	Tax distortions: Corporate investment	Gruber 24.
<b>November 18</b> Lecture 22	Fundamental Tax Reform	Supplemental
<b>November 20</b>	<b>Exam 2: taxation</b>	
<b>Section 6: state and local government</b>		
<b>November 25</b> Lecture 23	Fiscal federalism	Tresch, 21.
<b>November 27</b>	Independent work on policy brief [No class]	
<b>December 2</b> Lecture 25	Local government competition and zoning Education and the property tax <b>[PS 5 DUE]</b>	Tresch, 22./hand out
<b>December 6</b> Lecture 25	Grants-in-aid <b>[Final Policy Brief Due]</b>	Tresch, 23.
<b>December 9</b> Lecture 26	<b>Exam 3: cumulative + federalism and local government</b>	