Public Finance and Public Policy 2

Course Description: This course analyzes the rationales for government intervention in the economy, the form that intervention takes, and the effects of government policy. In terms of theory, the course will cover public goods and the incidence and deadweight loss of taxation, income redistribution, and the role of empirical evidence in public finance. It will cover welfare and social insurance programs, including unemployment insurance, disability insurance, and social security. On the tax side, it will cover income and payroll taxation, estate taxation and labor supply responses to taxes. Given current policy debates we will emphasize social security reform and income tax reform.

Prerequisites: PPHA 323, 324 or intermediate microeconomics.

Lectures: Wednesday 3-5:50 in 289B.

Office Hours: Tuesday 9:00-10:00, Thursday 1:30-2:30

Grading: Grades will be based on in class participation, one midterm exam, several homework sets, and a cumulative final exam. The weights will be 10% on in class participation, 30% on the midterm, 15% on the homeworks, and 45% on the final. The exams are scheduled for the following dates:

MIDTERM - Wednesday, May 9, 2012.
FINAL - Wednesday, June 6, 2012.

There will be no make-up exams. Some sample exams will be posted on chalk.

Texts and Readings:

I also recommend Public Finance, Ninth Edition, by Harvey S. Rosen and Ted Gayer (McGraw Hill, 2010). The readings listed from Rosen and Gayer are an alternative to the Gruber readings, but one text or the other is sufficient. Earlier editions of this book are fine since the theory hasn’t changed, but the chapter numbering is slightly different. Other required readings will be on the chalk site.
A list of topics, readings and tentative schedule follows. In the reading list, G refers to the Gruber text, RG refers to the Rosen and Gayer text, SB refers to Slemrod and Bakija. All other readings are on the chalk site.

Part One: Introduction and Tools

I. Introduction: The role of government in a market economy; welfare economics.
   - G, chapters 1-2.
   - RG, chapter 3.

II. Empirical tools of public finance.
   - G, chapter 3.

III. Market failure: public goods.
   - G, chapter 7.
   - RG, chapter 4.

Part Two: Redistribution and Social Insurance.

IV. Income distribution and welfare programs.
   - G, chapters 17 and 21.3.
   - RG, chapters 12 and 13.

V. Social insurance I: Insurance, social security, unemployment insurance, disability insurance.
   - G, chapters 12, 14.
   - RG, chapter 13.

VI. Social insurance II: Social security.
   - RG, chapter 11.


Part Three: Taxation in Theory and Practice

VII. Incidence and excess burden of taxation.

G, chapters 19 and 20.1
RG, chapters 14 and 15.

VIII. The federal personal income tax.

G, chapter 18 and 21.
RG, chapters 17 and 18.
SB, chapter 5.


IX. Optimal income taxation and tax reform.

G, chapter 20.3, 25
RG, chapter 16, 21.
SB, chapters 6-9.


X. Estate taxation, course review.

G, chapter 23.3.
RG, chapter 21.