

Syllabus

Fall 2011

Professor Hanming Fang

Office: McNeil 429

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COURSE LOGISTICS:

Class Meeting Time & Location: Tuesdays & Thursdays 10:30-11:50am at McNeil 103.

Office Hours: Monday: 3:30-5pm; Friday: 10-11am, and by appointment

Teaching Assistant: Naoki Aizawa (office: McNeil 430)

TA Office Hours: Tuesday: 3:30-4:30 pm; **Wednesday: 5:00-6:00 pm.**

Review Sessions: TBA.

Class Listserv Email: ECON231-001-11C@lists.upenn.edu

COURSE DESCRIPTION:

Prerequisites: Econ 101 (intermediate micro theory), Math 104 (Calculus, Pat I) and Math 114 (Calculus Part II) or Math 115 (Calculus Part II with Probability and Matrices). Econ 103 (Statistics for Economists) is also recommended.

Textbook: (available at Penn Book Store or can be purchased online): David N. Hyman: *Public Finance: A Contemporary Application of Theory to Policy* (10th Edition). SouthWestern Press, 2010.

Notes About Textbook: The publisher (Cengage Learning) sent me an email regarding e-access to the textbook:

ECON231 PUBLIC FINANCE

Hyman

Public Finance (with Economic Applications, InfoTrac[®] 1-Semester Printed Access Card)

<http://www.cengagebrain.com/shop/isbn/9780538754460?cid=D2S>

As an added bonus, we're offering an exclusive promotion for your students: \$10 off any purchase of \$80 or more with coupon code FALL2011* Please provide your students with this coupon code in addition to the ordering link so they can save even more money and get the right product for your course! *Coupon code expires 9/30/2011 and excludes rental, Aplia and microsite purchases.

COURSE SYNOPSIS:

The main goal of this class is to develop a set of tools for analyzing the role that government plays in the economy and the lives of its citizens. In particular, we will consider some reasons for government intervention in a market economy and study the impact of government expenditure programs and taxation systems on the welfare and behavior of its citizens. The course will cover a wide range of issues in public finance with a focus on current policy debates and issues. Topics covered will include the common use of natural resources, the environment, health care reform, social security, public assistance program, and taxation.

CLASS BLACKBOARD:

We will use the class blackboard site: <https://courseweb.library.upenn.edu> for all postings of course materials, including problem sets and solutions, lecture notes, practice exams, and announcements.

COURSE REQUIREMENT AND GRADING POLICY

Requirements for this class include two in-class midterm exams, a final paper, and four problem sets. Each exam will cover material from roughly half of the class:

- The *first midterm exam* will be given in class at midterm on **October 20th** (Thursday);
- The *second midterm exam* will be given on the final day of class, **December 8th** (Thursday).
- The *four problem sets* will be dispersed at regular intervals throughout the semester and will include problems indicative of those that will be used on the exams.
- The *final paper* will be due at 5:00pm on the final day of the reading period, December 13th. No exceptions will be made concerning this due date except with the written permission of your college dean.

In the paper the student is required to summarize how his/her views about any public policy issues have been affected by this course; and also propose any new ideas and thoughts about these topics. You are expected to spell out the particular policy issue that you are trying to discuss; review the economic arguments relevant to the issue; discuss your original views on the issue; explain your current position and how it was affected by what you learned in class; and finally discuss any new ideas/proposals. During the course, I will provide a list of potential term-paper ideas for your consideration. The length of the term paper should be about 10-15 double-spaced pages.

- Grades for the class will be based on these requirements in roughly the following proportions:

Problem Sets (4)	25%
First In-Class Midterm Exam (October 20 th)	25%
Second In-Class Midterm Exam (December 8 th)	25%
Final Paper (Due: 5pm December 13th)	25%

- Two class debates are planned on health care reform and the U.S. debt crisis (see below). Also, additional credit will be given based on participation in the general class discussions.

CLASS SCHEDULE AND READING ASSIGNMENTS

September 8: Background/Introduction

Reading: Chapter 1

Part I: The Economics Basis for Government Activity

September 13: Free Market and Efficiency: Review of First Theorem of Welfare Economics

Reading: Chapter 2

September 15: Externalities, and Government Interventions: Coase Theorem; Markets for Pollution Rights

Readings: Chapter 3

Additional Readings:

- Robert Stavins (1998): "What Can We Learn from the Grand Policy Experiment? Lessons for SO₂ Allowance Trading." *Journal of Economic Perspectives*, Vol 12, No. 3, 69-88.

September 20: Public Goods and the Free Riding Problem.

Readings: Chapter 4.

Additional Readings:

- John Tierney: "A Tale of Two Fisheries", *NY Times Magazine*, August 28, 2000.

September 22: How Are Public Policies Made? Public Choice and Political Economy.

Readings: Chapter 5.

Part II: Selected Issues of Government Expenditures and Policy in the United States

September 27: Government Support Programs for the Poor

Reading: Chapter 7

Additional Readings:

- Hanming Fang and Michael Keane (2006): "Assessing the Impact of Welfare Reform on Single Mothers," *Brookings Papers on Economic Activity*, 2004, Volume 1, 1-116.

September 29: Social Security

Reading: Chapter 8

Additional Reading:

- Martin Feldstein: Structural Reform of Social Security. *Journal of Economic Perspectives*, Spring 2005, page 33-55.

October 4: Other Social Insurance Programs

Reading: Chapter 8

Additional Readings:

- Martin Feldstein: Rethinking Social Insurance. NBER Working Paper

October 6: *Floating Class* (to catch up, to review or to have discussions)

October 11: Fall-Term Break: Enjoy your Break!

October 13: Health Care and Health Care Reform

Readings: Chapter 9

Additional Readings:

- Paul Howard and Stephen T. Parente (2010). "Toward Real Health Care Reform." *National Affairs*, 2010.
- Milton Friedman (2001). "How to Cure the Health Care". *The Public Interest*. Winter 2001.
- Paul Krugman, Health Care Reform Myths. March 12, 2010, NY Times.

October 18: Review and discussions.

October 20: **First In-Class Midterm Exam.**

Part III: Government Revenue and Government Debts

October 25: **Class Debates: Reforming the U.S. Health Care System!!!**

October 27: Introduction to Taxation

Reading: Chapter 10

November 1: Theory of Tax Incidence

Reading: Chapter 11

November 3: Theory of Tax Incidence (continued)

Reading: Chapter 11

November 8: Budget Balance and Government Debt: Facts

Reading: Chapter 12

November 10: Theory of Income Taxation

Reading: Chapter 13

November 15: U.S. Personal Income Tax System in Practice

Reading: Chapter 14

November 17: Taxation of Corporate Income

Reading: Chapter 15

November 22: Taxation of Consumption and Sales

Reading: Chapter 16

Additional Reading:

- *Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System*. Report of the President's Advisory Panel on Federal Tax Reform, November 2005.
- *The Moment of Truth*, REPORT OF THE NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM. December 2010. [Known as *Erskine Bowles and Alan Simpson* Report]
- Martin Feldstein, *Raise Taxes, but Not Tax Rates*, New York Times Op-Ed, May 4, 2011.

November 24: Thanksgiving Break.

November 29: Taxes on Wealth, Property and Estates.

Reading: Chapter 17

Additional Reading:

- Wojciech Kopczuk (2009). "Economics of estate taxation: A brief review of theory and evidence," *Tax Law Review*, 2009, 63(1), 139-157.
- Wojciech Kopczuk and Joel Slemrod (2003). "Dying to Save Taxes: Evidence from Estate Tax Returns on the Death Elasticity" (with Joel Slemrod), *Review of Economics and Statistics*, 85(2), 256-65.

December 1: Class Debates: Toward Solutions to the U.S. Debt Crisis!!!

December 6: Review and Discussions.

December 8: Second in-Class Midterm Exam.

December 13: Final paper due at 5pm (email or hard copy).

Classes Policies for Econ 231 (Fall 2011)

1. **Attendance:**

Attendance of lectures is required. If a student repeatedly fails to attend classes without proper excuses, the student will receive a lower grade.

2. **Cooperation:**

You may discuss homework assignments; however, each individual must submit a separate homework assignment, and each individual will be separately graded on the assignment. You may not cooperate while taking exams.

3. **Aids During Exams:**

All exams are closed book. You may not communicate or cooperate with anyone on the exam.

4. **Format of Assigned Work:**

All homework assignments and term paper must be typed. All hand written answers to exam questions should be legible. Spelling, grammar, style, etc. do not "count" per se. However, anything that the TA or I cannot read or understand is wrong. Poor spelling, grammar, style, etc are often confusing.

5. **Lateness:**

Due and return dates for assignments will be announced in class. These dates are binding. Late assignments are not accepted without either proper arrangement and compelling, verifiable reason.

6. **Return of Homeworks and Exams:**

Homeworks and exams will be returned to you during class. You are responsible for picking them up.

7. **Re-grade requests:**

A request for a re-grade of a problem set or an exam must be submitted to me in writing. In such a case, I will reevaluate your *complete* homework set or exam.

8. **Missing an Exam:**

If you miss an exam, you need to obtain a letter signed by the coordinator of the undergraduate studies, Lynn Costello, that excuses your absence. If you do not obtain such a letter, you will fail the exam.

9. **Make-up Exams:**

There are no make-up exams. If you have to miss the first in-class midterm exam, the second in class midterm exam will be worth 50% of your grade. If you miss the second in class exam, there will be an oral exam which replaces it.