

Course: (EC 623) Public Expenditure and Policy Analysis

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Office Hours: By appointment so just email me or stop by.

Course Description and Layout:

Public finance is the study of the economic functions or the role of a government and its associated institutions. The purpose of this course is to provide a survey of areas of this field with an emphasis on its microeconomic aspects. Therefore, knowledge of graduate level microeconomic theory and the ability to understand canonical micro arguments will be assumed.

The course will be divided into 4 sections. In Section 1 we will examine the role of government as it relates to areas of expenditure theory. Namely, we will be focusing on aspects of efficiency, efficacy, and optimality. Section 2 will have a discussion of Taxation. In Section 3 we turn our attention to Income Redistribution and an empirical analysis of some of the more salient points of expenditure theory. In Section 4 we will examine Cost/Benefit Analysis, if there is time. There will be an empirical examination following this material. The primary layout of the course is as follows:

Expenditure Theory

1. Edgeworth Boxes and Exchange Economies (Rosen and Gayer chapter 3)

1.a Bergstrom Chapter 1(not covered in class but needed)

2. Pure Public Goods

2.a Bergstrom Chapter 2(not covered in class but needed)

2.b Optimality (Pareto)

Method #1 (Social Welfare Functions)

Method #2 (Additive MWTP Curves)

Method #3 Kolm Triangles (Endowments, Goods, and Proofs)

3. Implementation

Samuelson

Foley (for more reference see Takayama pages 204- 232)

Triangles

4. Tiebout

Atkinson and Stiglitz

5. Externalities (Rosen and Gayer chapter 5)

Missing Markets

Bergstrom Chapter 5(not covered in class but needed)

Coase with Criticisms

Pigou

Demand Side

Taxation

1. Taxation and Efficiency (Rosen and Gayer chapter 15)
2. Inefficiency from Unit and Ad Valorem Taxes (Pauwels)
3. Excess Burden (Pauwels)

CV and EV comparisons

Expenditure Functions and Hicksian Demand

4. Optimal Commodity Taxation

Ramsey rules and Inverse Elasticity rules

Tresch, Chapter 4

Tresch, Chapter 15

Income Distribution

1. Lorenz Curves
2. Income Inequality
3. Redistribution of Income

Cost/Benefit Analysis

If time permits.

Course Evaluation:

There will be four (4) aspects of my evaluation of your performance in this course:

1. The first is a mid-term examination which will occur upon the completion of expenditure theory (or very close to completion).
2. The next is a paper of approximately journal-article length (approximately 10-15 typed, double-spaced pages.) This paper should focus on a particular aspect of our considerations and should **NOT** attempt to go beyond a simple summarization of the literature in an area. Please get prior topic approval before starting.
3. There will be a final exam.
4. There will be two (2) relatively straight forward homework sets given out. You will receive a grade of S for satisfactory or U for unsatisfactory. No formal grading will be done. Check with classmates to verify answers.

The midterm exam represents 1/3 of your course grade; 1/3 is assigned to the final exam; with the remaining 1/3 being assigned to your paper.

Required Text:

Public Finance: A Normative Theory 2nd Ed. by Richard W. Tresch. In addition you are responsible for the readings.

Plagiarism

1. Student Handbook Definition: Representing the words, data, works, ideas, computer program or output, or anything not generated in an authorized fashion, as one's own. There are at least two types of plagiarism you need to be aware of as you prepare your course paper:

(a) Wholesale copying of another's work, or submission of a paper which is wholly or largely the work of another.

(b) Pulling material together from various sources without both paraphrasing the material (substantially transforming the material into your own words) and giving a clear citation to your source. If you use a word -for-word quote, you must use quotation marks and cite the source. While some direct quotation is acceptable in a paper, I want to see your writing; a paper which is largely a series of direct quotes is not acceptable. This means that in general, when you draw on sources directly, you must transform the material by putting it into your own words and then you must cite the source clearly. In your citation, include a page number along with the other standard information.

2. This is an extremely serious academic offense which can lead to your removal from the university.

3. Don't do it.

Readings:

Expenditure Theory

Atkinson and Stiglitz, (1980) Lectures on Public Economics, McGraw Hill Publishers

Rosen, Harvey and Ted Gayer (2009) Public Finance, McGraw Hill Publishers

Foley, D. K. (1970), "Lindahl's Solution and the Core of an Economy with Public Goods," *Econometrica*, 38, 66-72.

*Pecorino, P. (1999), "The Effect of Group Size on Public Good Provision in a Repeated Game Setting," *Journal of Public Economics*, 72, 121-134.

*Willis, K.G. et al. (2005), "Estimating the Value of Improved Street Lighting: A Factor Analytical Discrete Choice Approach," *Urban Studies*, 42, 2289 – 2303.

Roberts, D.J. (1974), "The Lindahl Solution for Economies with Public Goods," *Journal of Public Economics*, 3, 23-42.

Thomson, W. (1999), "Economies with Public Goods: An Elementary Geometric Exposition," *Journal of Public Economic Theory*, 1 (1), 139-176.

Schlesinger, H. (1989), "On The Analytics of Pure Public Good Provision," Public Finance/ Finances Publiques, (Handout)

*Scotchmer and Wooders, "Competitive Equilibrium and the Core in Club Economies with Anonymous Crowding," *Journal of Public Economics*, 1987

Arrow, K. (1970), "The Organization of Economic Activity: Issues Pertinent to the Choice Market Versus Non-Market Allocation," in Public Expenditure and Policy Analysis, R. H. Havemann and J. Margolis (eds.)

*Ruffin, R.J. (1996), "Externalities, Markets, and Government Policy" Federal Reserve Bank of Dallas Economic Review Third Quarter. 24-29

Samuelson, Paul (1954), "The Pure Theory of Public Expenditure" *RE Stat*, pp. 387-89

Samuelson, Paul (1955), "Diagrammatic Exposition of a Theory of Public Expenditure" *RE Stat*, pp. 350-355.

Samuelson, P. A. (1966), "Pure Theory of Public Expenditure and Taxation," in Public Economics ed. by Margolis and Guitton.

*Stroup, Richard (2000), "Free Riders and Collective Action Revisited" *The Independent Review*, pp. 485-500.

Takayama, Akira (1993), Mathematical Economics, Cambridge University Press.

Taxation

*Kay, [read 111 – 114 only], (1980), "The Deadweight Loss from a Tax System," *Journal of Public Economics*

Atkinson and Stiglitz, Chapters 12-14

*Tiebout, C. (1956), "A Pure Theory of Local Expenditures," *Journal of Political Economy*, 64, 416-424.

Pauwels, (1986) "Correct and Incorrect Measures of the Deadweight Loss of Taxation," *Public Finance/Finances Publiques*

Income Distribution

Campono, F., and D. Salvatore, (2006), *Income Distribution*, Oxford University Press, New York, NY.

*Hoover, G., and J. Formby (2004) "Poverty, Non-White Poverty, and the Sen Index," with John Formby, *Review of Income and Wealth*, Vol. 50(4).

*Bruno, M., M. Ravallion, and L. Squire, (1998), "Equity and Growth in Developing Countries: Old and New Perspectives on the Policy Issues, in *Income Distribution and High Growth*, Vito Tani and Ke-Young Chu editors, MIT Press, Cambridge, MA.

- *Gomez, R., and D. Foot, (2002), "Age Structure, Income Distribution and Economic Growth," European University Institute Working Paper RSC 2002/36.
- *Lundberg, M., and L. Squire, (2003), "The Simultaneous Evolution of Growth and Inequality," *The Economic Journal*, Vol. 113, pp. 326 – 344.
- *Perman, R., and D. Stern, (2003), "Evidence from Panel Unit Root and Cointegration Tests that the Environmental Kuznets Curve does not exist," *The Australian Journal of Agricultural and Resource Economics*, Vol. 47(3), pp. 325 – 347.
- *Hayes, K.; D. Slottje and S. Porter-Hudak, (1991), "US Federal Redistributive Income Policies," *Applied Economics*, Vol. 23, pp. 1193 – 1200.
- *Chen, B., (2003), "An Inverted-U Relationship Between Inequality and Long-Run Growth," *Economics Letters*, Vol. 78, pp. 205 – 212.
- *Kuznets, S. (1955), "Economic Growth and Income Inequality," *American Economic Review*, Vol. 34(1), pp. 1 – 28.
- *Blinder, A. and Esaki H., (1978), "Macroeconomic Activity and Income Distribution in the Postwar United States," *The Review of Economics and Statistics*, Vol. 60(4), pp. 604 – 609.
- *Adams, R., (2003), "Economic Growth, Inequality, and Poverty: Findings from a New Data Set," World Bank Policy Research Working Paper # 2972.

*Denote readings that are optional.