

ECON 350 - Government Finance

ECON 550 - Public Finance: Analysis & Policy

Fall - 2018

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Office Hours: MTW 9:00-11:00 a.m. &
and by appointment

“There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen.”

-Frédéric Bastiat (1801-1850)

“There is no such thing as a free lunch.”

-Milton Friedman (1912-2006)

Description

This course examines the role of government in market economies. We will focus on both theoretical and empirical issues related to the classic topics in the field of public finance, including externalities, public goods, preference revelation, basic tax theory, and fiscal federalism. We analyze current government expenditure programs, such as welfare, health, environmental, housing, education and social security programs. We also analyze equity and efficiency effects of taxes including personal income, corporate income, sales, property and Social Security taxes.

Prerequisites: ECON 202 (or equivalent)

Required Textbook

Gruber, Jonathan. *Public Finance and Public Policy*. 5th ed. New York: Worth Publishing, 2012.

Although the 5th edition is listed on the syllabus, previous editions will also work.

Supplemental Materials

Occasionally, I will be discussing topics not covered in the textbook. For these I will post the necessary reading materials online at <https://canvas.emich.edu/>. Students are also responsible for keeping up-to-date on current event issues as they will be discussed in class.

Evaluation Criteria

ECON 350

Your course percentage score will be based on (several) problem sets and three exams. Your course percentage score will be calculated as a weighted-average of the percentage score you receive on each of the assignment groups. The problem sets are one assignment group, while each exam is an individual assignment group, making a total of four assignment groups. The weights used in the calculation are: Problem Sets (each of equal weight) (10%); Exam 1 (30%); Exam 2 (30%); Exam 3 (30%).

I will round your course percentage score to the nearest whole number using standard rounding-techniques. That is, any number with a decimal of 0.50 and above will be rounded up, while a number with a decimal of 0.49 will be rounded down. The grading scale used for this course is detailed below.

A.....93-100%	B+.....86-89%	C+.....76-79%	D+.....66-69%	F.....0-59%
A-.....90-92%	B.....83-85%	C.....73-75%	D.....63-65%	
	B-.....80-82%	C-.....70-72%	D-.....60-62%	

For example, if you receive a 92% on the problem sets, a 95% on exam 1, an 85% on exam 2, and a 92% on exam 3, your course percentage score and associated course letter grade are calculated as

$$92\% \times (0.1) + 95\% \times (0.3) + 85\% \times (0.3) + 92\% \times (0.3) = 90.8\%$$

which is rounded up to a 91%, corresponding with a letter grade of A-.

I will use Canvas's online grade book to record grades so that you will be aware of your grades throughout the semester.

Grading curves for each exam may be implemented at my discretion.

Extra credit will not be given.

Once you take an exam, you will not be allowed to re-take it.

Make-up exams will only be given in certain circumstances. I reserve the right to judge what types of reasons are legitimate. You must secure from me permission to miss an exam either before or after the fact. You will receive a grade of zero for any exam that you miss for which you do not have an excused absence.

Although, I do not take attendance you are required to attend every class.

ECON 550

Your course percentage score will be based on (several) problem sets, three exams, and an empirical project. Your course percentage score will be calculated as a weighted-average of the percentage score you receive on each of the assignment groups. The problem sets are one assignment group, while each exam is an individual assignment group, and the empirical project is an assignment group making a total of five assignment groups. The weights used in the calculation are: Problem Sets (each of equal weight) (10%); Exam 1 (25%); Exam 2 (25%); Exam 3 (25%); and Empirical Project (15%).

I will round your course percentage score to the nearest whole number using standard rounding-techniques. That is, any number with a decimal of 0.50 and above will be rounded up, while a number with a decimal of 0.49 will be rounded down. The grading scale used for this course is detailed below.

A.....93-100%	B+.....86-89%	C+.....76-79%	F.....0-69%
A-.....90-92%	B.....83-85%	C.....73-75%	
	B-.....80-82%	C-.....70-72%	

The empirical project requires you to conduct a cost-benefit analysis of a particular policy of your choice. Specifically, you are to use the tools and knowledge of public economics learned in the course to analyze the costs and benefits of a current policy (or policy proposal). For example, you could analyze the minimum wage law, universal basic income, Tax Cuts and Jobs Act of 2017, etc. You should provide logical arguments using empirical data to back up your assertions. I will provide more details for this project in class, but start thinking about possible policies you may want to write about. For students needing extra help there are free services offered on campus at the University Writing Center (<http://www.emich.edu/english/writing-center>).

Graduate students are also required to read the selected empirical papers that are marked with an “*” in the course outline below. You will be required to answer questions related to these articles on exams.

Exams

There will be a total of three exams. The final exam is not comprehensive and will cover the material succeeding the second exam. The exams will cover material from class, textbook, and any additional assigned readings, including special topic discussions. Each exam will consists of short and long answer questions and problems. Graduate students are required to answer questions relating to the required outside reading and undergraduate students will have the option to answer these questions or not. Tentative dates for the exams will be given in class.

You must have a VERY good excuse to make up an exam. Your professor reserves the right to judge what types of excuses are legitimate. Permission to miss an exam must be secured before the scheduled exam time unless the cause of the absence is unanticipated. If you miss an exam for an unforeseen reason you should contact me as soon as you are physically able to email me. If you miss an exam and do not receive an excused absence, you receive a zero for that exam. Make-up exams will be given before or after the missed exam at a time/place convenient for both parties.

Problem Sets

There will be several problem sets assigned during the the semester. The number of problem sets will be determined based on how much material we get through. Problem sets will be graded for completeness and/or accuracy based on the discretion of the instructor. I will not correct each individual assignment, therefore reconciling your answers with the answer key provided is highly recommended. I suggest students put forth maximum effort on all assignments as if points are awarded only for correct answers. Problem sets are designed to help students prepare for exams. You will be allowed to work in groups, however each individual must turn in their own work (no copies!). I will accept late assignments upto one day late with a 20% penalty. For any problem set that is turned in after one day late will receive a zero for the problem set.

Grievance Policy

I understand there is a certain amount of subjectivity that goes into grading, therefore, I offer students the chance to grieve a particular grade that they receive on an exam, problem set, or project. The written grievance should identify the item in dispute and provide arguments supporting the student's position. Grievances must be submitted within two class periods following the return of the exam or assignment. Attach your entire exam or assignment to the grievance.

Disability Concerns

It is my goal that this class be an accessible and welcoming experience for all students, including those with disabilities that may affect their learning in this class. If you believe you may have trouble participating or effectively demonstrating learning in this course, please meet with me (with or without an accommodation letter from the Disability Resource Center) to discuss reasonable options or adjustments. During our discussion, I may suggest the possibility/necessity of your contacting the DRC (240 Student Center; (734) 487-2470; swd_office@emich.edu to talk about academic accommodations. You are welcome to talk to me at any point in the semester about such issues, but it is best if we can talk at least one week prior to the need for any modifications.

University Policies

In addition to the articulated course specific policies and expectations, students are responsible for understanding all applicable University guidelines, policies, and procedures. The EMU Student Handbook is the primary resource provided to students to ensure that they have access to all University policies, support resources, and students' rights and responsibilities. Changes may be made to the EMU Student Handbook whenever necessary, and shall be effective immediately, and/or as of the date on which a policy is formally adopted, and/or on the date specified in the amendment. Please note: Electing not to access the link provided below does not absolve a student of responsibility. For questions about any university policy, procedure, practice, or resource, please contact the Office of the Ombuds: 248 Student Center, (734) 487-0074, emu.ombuds@emich.edu, or visit the website: <http://www.emich.edu/ombuds>

University course policies link: <http://www.emich.edu/studenthandbook/policies/academic.php#univ>

Tentative Topics to be Covered

I. Introduction to Public Finance

1. Gruber: Chapters 1 (Why Study Public Finance)
2. Gruber Chapters 2 & 3 (Theoretical & Empirical Tools)

Empirical paper:

Whittington, L. A., Alm, J., and Peters, H. E. (1990). Fertility and the personal exemption: implicit pronatalist policy in the United States. *The American Economic Review*, 80(3), 545-556.*

II. Government Budget Analysis

1. Gruber: Chapters 4

Empirical paper:

Shapiro, M.D. and Slemrod, J. (1995). Consumer response to the timing of income: Evidence from a change in tax withholding. *The American Economic Review*, 85, 231-254.

III. Externalities

1. Gruber: Chapters 5

Empirical paper:

Ayres, I. and Levitt, S.D. (1998). Measuring positive externalities from unobservable victim precaution: An empirical analysis of Lojack. *Quarterly Journal of Economics*, 113, 43-77.*

IV. Public Goods

1. Gruber: Chapters 7

Empirical paper:

Kingma, B.R. (1989). An accurate measurement of the crowd-out effect, income effect, and price effect for charitable contributions. *The Journal of Political Economy*, 97, 1197-1207.*

Exam 1

V. Cost-Benefit Analysis & Revealed Preferences

1. Gruber: Chapter 8

Empirical paper:

Deacon, R.T. and Sonstelie, J. (1985). Rationing by waiting and the value of time: Results from a natural experiment. *The Journal of Political Economy*, 93, 627-647.

VI. Political Economy

1. Gruber: Chapter 9
2. *Special Topics* - Public Choice Theory
3. *Special Topics* - Government Failure (Corruption & The Shadow Economy)

Empirical papers:

Shughart, William F. II. Public Choice, The Library of Economics and Liberty.*

Rose-Ackerman, S. (2008). Corruption. In C.K. Rowley & F. Schneider (Eds.), *The Encyclopedia of Public Choice* (pp. 67-77).

Schneider, F. (2008). Shadow Economy. In C.K. Rowley & F. Schneider (Eds.), *The Encyclopedia of Public Choice* (pp. 286-296).

VII. Fiscal Federalism

1. Gruber: Chapter 10 (State and Local Government Expenditures)

Empirical paper:

Rork, J.C. (2003). Coveting thy neighbors' taxation, *National Tax Journal* 56, 775-787.*

VIII. Education

1. Gruber: Chapter 11

Empirical paper:

Jaeger, D.A. and Page, M.E. (1996). Degrees matter: New evidence on sheepskin effects in the returns to education. *The Review of Economics and Statistics*, 78, 733-740.

Exam 2

IX. Social Insurance and Redistribution

1. Gruber: Chapter 12 (Social Insurance)
2. Gruber: Chapter 13.1 (Social Security)
3. Gruber: Chapter 14.1 (Unemployment Insurance, Disability Insurance, and Workers' Compensation)
4. Gruber Chapters 15.1 (Health Insurance)
5. Gruber: Chapter 17.1 (Income Distribution and Welfare Programs)

Empirical paper:

Cutler, D.M. and Reber, S.J. (1998). Paying for health insurance: The trade-off between competition and adverse selection. *Quarterly Journal of Economics*, 113, 433-66.

X. Taxation

1. Gruber: Chapter 18.1 (Types of Taxation)
2. Gruber: Chapter 19 (Tax Incidence)
3. Gruber: Chapter 20 (Tax Inefficiencies)

Empirical paper:

Besley, T.J. and Rosen, H.S. (1999). Sales taxes and prices: an empirical analysis. *National Tax Journal*, 52, 157-178.

Final Exam: Monday, December 17, 2018 (11:00 a.m.-12:30 p.m.)

This syllabus is subject to change. If I do make changes, I will announce them in class and/or email class members through <https://canvas.emich.edu/>.
