ECONOMICS OF THE PUBLIC SECTOR, ECON 4211-001
Department of Economics, University of Colorado
Spring 2007

M,W,F: 12:00-12:50 p.m.   Professor: Charles de Bartolome
Room: GUGG 205   Office: ECON 203
Office hours: M 3:45-4:45 pm, Tu 9:15-10:15 am, Tel: (303) 492-4464
                   Th 1:30 - 2:30pm   e-mail: Charles.Debartolome@colorado.edu

Textbook: Gruber, J., (2005), *Public Finance and Public Policy*. Worth Publishers.

Course description: The benchmark model of economics is that markets are "good" at producing and allocating most commodities. However, there are instances when markets do not work well. This is termed market failure, and the course will discuss two classic examples of market failures, viz. public goods and externalities. In such situations, a government program may be justified on the grounds that it can improve outcomes. In addition, markets do not always lead to equitable outcomes so that the government may be justified if it redistributes resources from rich to poor families. The course discusses how the design of a program is determined by the legislators' objectives and by the extent to which voters are informed. In addition to discussing the justification and design of a government program, the course discusses the financing of the program and the design of the tax structure.

Pre-requisite: Intermediate Microeconomics, ECON 3070.

Course Assignments and CULearn: All course assignments, problem sets and some lecture notes are posted on the CULearn page located at: http://culearn.colorado.edu .

In the past, some students have had difficulty in downloading some of the posted pdf files. ITS advises that this is due to the large file sizes. ITS recommends that you open the Adobe Acrobat Reader. Then click as: Edit > Preferences> Internet and *un*check "Allow Fast Web View".

Please note that six pages of each Adobe Acrobat file can be printed on a single sheet by clicking as: Print>Properties>Multipage>6

Problem Sets: The problem sets are an integral part of the course. They are designed to help you use the material and a significant part of the exams will closely follow their format.

In addition, there are many questions at the end of each chapter in the textbook. I encourage you to do these questions and I hope to post the answers for your use.

Textbook website: there is a web site provided by the textbook. It has address www.worthpublishers.com/gruber . It lists many additional sources. It also has a multiple-choice quizz bank. Although the exams for this course are not multiple choice, I encourage you to do these questions as "using is learning".

Grading

You must bring a blue-book to each exam.

Students with Special Needs: If you qualify for accommodations because of a disability, please submit to me a letter from Disability Services in a timely manner so that your needs may be addressed. Disability Services determines accommodations based on documented disabilities. Contact:303-492-8671, Willard 322 and www.Colorado.EDU/disabilityservices .

Sexual Harassment Policy: The University of Colorado at Boulder policy on Discrimination and Harassment, the University of Colorado policy on Sexual Harassment and the University of Colorado policy on Amorous Relationships applies to all students, staff and faculty. Any student, staff or faculty member who believes s/he has been the subject of discrimination or harassment based on race, color, national origin, sex, age, disability, religion, sexual orientation, or veteran status should contact the Office of Discrimination and Harassment (ODH) at (303) 492-2127 or the Office of Judicial Affairs at (303) 492-5550. Information about the ODH, the above referenced policies and the campus resources available to assist individuals regarding discrimination or harassment can be obtained at: http://www.colorado.edu/odh

Religious Observances: Campus policy regarding religious observances requires that faculty make every effort to reasonably and fairly deal with all students who, because of religious obligations, have conflicts with scheduled exams, assignments or required attendance. In this class, please let me know in a timely manner if one of the exam dates falls on a religious holiday you intend to observe and I will arrange for you to take a make-up. See policy details at http://www.colorado.edu/policies/fac_relig.html

Classroom Behavior: Students and faculty each have responsibility for maintaining an appropriate learning environment. Students who fail to adhere to behavioral standards may be subject to discipline. Faculty have the professional responsibility to treat students with understanding, dignity and respect, to guide classroom discussion and to set reasonable limits on the manner in which students express opinions. Professional courtesy and sensitivity are especially important with respect to individuals and topics dealing with differences in race, culture, religion, politics, sexual orientation, gender variance, and nationalities. Class rosters are provided to the instructor with the student's legal name. I will gladly honor your request to address you by an alternate name or gender pronoun. Please advise me of this preference early in the semester so that I may make appropriate changes to my records. See policies at
http://www.colorado.edu/policies/classbehavior.html and at
http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code

Academic Integrity: All students of the University of Colorado at Boulder are responsible for knowing and adhering to the academic integrity policy of this institution. Violations of this policy may include: cheating, plagiarism, aid of academic dishonesty, fabrication, lying, bribery, and threatening behavior. All incidents of academic misconduct shall be reported to the Honor Code Council (honor@colorado.edu ; 303-725-2273). Students who are found to be in violation of the academic integrity policy will be subject to both academic sanctions from the faculty member and non-academic sanctions (including but not limited to university probation, suspension, or expulsion). Other information on the Honor Code can be found at
http://www.colorado.edu/policies/honor.html and at

http://www.colorado.edu/academics/honorcode/

PROVISIONAL COURSE OUTLINE

Date	*Topic*	*Chapter*

1. INTRODUCTION

17, 19 Jan	INTRODUCTION The Four Questions of Public Finance Separation of expenditure and taxes Government size. Normative *v.* positive	1
22 Jan	FISCAL FEDERALISM Assignment of responsibilities *Problem Set:* Fiscal Federalism	pp. 247-250
24 Jan	POSITIVE ECONOMICS The need for a model	3
26 Jan	NORMATIVE ECONOMICS: THE OBJECTIVE Pareto-efficiency Welfare functions Need for a model	2

2. BASE CASE: COMPETITIVE MARKETS

| 29, 31 Jan
2 Feb | PRIVATE GOODS
Competitive outcome.
First fundamental welfare theorem.
Second fundamental welfare theorem.

Problem Set: First Fundamental Welfare Theorem
Problem Set: Public Provision of Private Goods
Problem Set: Second Fundamental Welfare Theorem | 2 |

Problem Set: Non-excludable public good.
Problem Set: Excludable public good.

21, 23, 26, 28 Feb	PUBLIC DECISION-MAKING	
2 Mar	Normative: Benefit-cost analysis	8
	Positive:	9

Informed voters:
      - majority voting - median voter theorem.
      - cycling.
      - Arrow impossibility theorem.
Uninformed voters:
      - the iron triangle.

Problem Set: Pareto-criterion and Benefit-Cost Analysis.
Problem Set: Voting
Problem Set: Cycling.

5 Mar   Review

5 Mar   MIDTERM (7:00 - 9:00 p.m. in EDUC 220)

7, 9 Mar   PUBLIC DECISION-MAKING (cont)

12,14,16,19,	EXTERNALITIES	5 and 6
21, 23 Mar	Efficient behavior.	(omit pp. 138-140)
	Coase theorem.	
	Pigou taxes and subsidies.	
	Regulation.	

Problem Set: the Coase theorem.
Problem Set: Pigou tax.
Problem Set: Permit sales.
Problem Set: Regulation

4. TAX ANALYSIS

13, 16, 18 Apr	PUBLIC FINANCE: TAX OR DEFICIT FINANCING	
	Ricardo equivalence.	
	Keynes view.	
	Overlapping-generation model.	
	Traditional argument.	
	Crowding-out of capital.	
	Social Security	13

Problem Set: Tax or deficit financing.
Problem Set: Social security and savings.
Problem Set: Demographic issues

20, 23, 25, 27	TAXATION: PRODUCT AND INCOME TAXES	20
	Do sales taxes reduce consumption	
	Do labor taxes reduce effort?	
	Do capital taxes reduce savings?	
	Excess Burdens	

Problem Set: Setting the product tax rate.
Problem Set: Product tax: excess burden.
Problem Set: Setting the income tax rate.
Problem Set: Income tax - excess burden.

30 Apr, 2, 4 May	TAXATION: NORMATIVE RULES FOR SETTING TAX RATES	
	Tax rules	20

Problem Set: Tax Reform

7 May	FINAL EXAM (4:30 p.m. - 7.00 p.m. in GUGG 205)