

ECON 5353: Public Finance- Fall 2008
University of Oklahoma, Department of Economics
Syllabus and Course Overview

Basic Course Information:

Professor: Gregory Burge

E-mail: gburge@ou.edu

Course Web Page: Desire to Learn

Class Time: TR 4:30 PM – 5:45 PM

Office Location: 325 Hester Hall

Office Hours: TR 3:00 PM - 4:15 PM

Office Telephone: 325-2358

Class Meeting Room: Hester 213B

A Note on Office Hours: In addition to office hours, I will be happy to help on a drop-in basis- but I reserve the right to “be busy”. You can always schedule an appointment.

Course Website & Class Email: For the most part, communication will come directly in class. On occasion, I may email the class or post an item to D2L.

Course Description & Objectives: Public Economics (Public Finance) is the study of the role of government in a market economy and the effects of government policies on resource allocation (efficiency) and income distribution (equity). In this course, we will discuss the fundamental principles that justify the existence of the public sector (market failure, public goods, externalities) and draw upon the development of economic theory in this area to describe what the role of the public sector should (and should not) be.

One of the specific goals of this course is to prepare you to be able to effectively research in the area of Public Economics. The subject matter will be a combination of what I consider to be some of the “classic” writings in the area of public finance and other, more current, investigations. The seminal papers are meant to frame the main issues that public finance is all about- often they will simply present in full form the important topics that make their way into undergraduate Public Finance textbooks (in a watered down version). Empirical papers covered include those that first established core findings that have guided work since as well as many more recent papers that push the envelope of understanding about controversial topics. We will emphasize the empirical techniques used in the more recent papers we cover as well. Because Public Economics is a VAST field, it is impossible to cover everything- this course will have a distinctly “local” flavor.

Specifically, the course objectives include (but are not limited to) the following:

- Being able to demonstrate mastery of the major concepts in Public Economics
- Apply these concepts to the task of analyzing the effects of specific government programs (taxation or spending) on resource allocation (efficiency) and income distribution (equity)
- Be familiar with some of the “classic” literature in the field as well as some of the more current literature
- Improve your presentation skills
- Improve your independent research and paper writing skills
- Be able to conduct effective research in the area of public economics- as demonstrated through your papers

Student Evaluation: Your grade will be determined according to the following weights:

Class participation & student article presentation(s)	20%
Midterm Exam	20%
Term paper in-class presentation	10%
Term Paper	30%
Final Examination	20%

A more detailed breakdown is as follows:

Class Participation, Submitted Questions, & Article Presentation:

Our class will be a relatively intimate setting so your own contributions will be important. Asking questions and offering up ideas and comments in regards to the questions/ discussion points that I pose- these are very important actions that demonstrate your critical thinking and understanding of the material. Reading papers *before* the lectures that are to cover them is a must. However, the idea is NOT that you read every word prior to coming to class. I will of course direct the discussion- and there is no expectation that you come into each class having thought long and hard about each article, but it will be important that you are at least familiar with the main ideas of the papers so that you can ask effective questions and see the connections between each paper and the overall path of the course. Some of the papers are long and only the main point is what we are trying to get from it. Some of the papers are short but discuss the use of very important econometric techniques that we will want to address in detail. Length of the paper itself is often a poor signal of how much time you should spend looking a paper over. To this end, for each paper we are going to cover for a particular class meeting, I will ask that you turn into my box, no later than noon the day of that class, a typed out set of THREE QUESTIONS for each paper. The questions should be as follows: Question 1) a short answer question (not all that challenging) that would be easily answerable in a short paragraph having read the paper- you will write out this question and also record your own answer. We will talk about these questions and I may also occasionally use them on the exams. Question 2) a longer answer question where at least a few paragraphs of writing or a reasonable amount of derivations would be required to answer the question- you do not need to provide the answer to this question, but I do want you to have some good ideas concerning its answer when you come into that class. I may also use these for exams. Finally, Question 3) a purely thought provoking type question that you aren't quite sure what the answer is. (Or maybe that's the point....there isn't say a definitive answer to this question) Ideal questions here would make good talking points in class. For example, "this paper finds result X, how can this be reconciled with result Y from some other paper that seems to contradict finding X?"

Questions can focus on topics such as (but not limited to): 1) the basic purpose of the article- why was it written, why is this important and/or interesting? Does it contribute to theory? Does it provide empirical evidence regarding a theoretically ambiguous question? Does it use empirical techniques that would be useful to address other questions? 2) How does the paper relate to both prior and subsequent research? Does it call into question any arguments/findings of papers that pre-dated it? 3) What are the

papers main results/ conclusions and why are they important to the field of Public Economics? The three questions preparation applies to all the CORE papers listed in **BOLD** that we will cover.

In addition, you will see in each section that there are a handful of papers listed as (P) papers, for presentation papers. These are papers that are suitable for students to select as presentation papers. We will work out the specific details once we get going- but each student will be responsible for 3 paper presentations over the semester. Presentations should be brief (20-30 minutes) but informative. Make sure you think about what the paper adds to our discussion of the core material and get that across in your presentation. We will talk more about the presentations as we get into the course. On exams, you will only be tested over the (P) papers that get selected/presented.

Midterm and Final Exam:

You will have 2 equally weighted exams. Your performance on the exams will give you a good idea where you are at in terms of preparing for the field examination as well as determining just under half of your grade for the course. Exams will primarily be essay response and short answer questions- I will circulate sets of example questions to be used for preparation. I will announce when the midterm is at least a few weeks in advance. The final exam will follow the slated time according to the posted University Finals schedule.

Term Paper:

The term paper and your presentation of your term paper will combine for 40% of your final grade. The paper must relate to the field of Public Economics, broadly defined. You have 2 options: Option 1) Select an important branch of literature within the field of public economics and compose a critical review of this literature OR Option 2) Conduct and present the results of your own original research. If you are a Ph.D. student, my expectation is that you will take Option 2.

Length: No required length- but keep in mind this is a serious portion of your grade. Literature reviews will likely need to be somewhat longer than write-ups of original research projects. If you do an original research project- I will take into consideration the time and effort put into obtaining the data and/or generating the modeling code. In some cases, a large amount of time may have gone into data collection and empirical analysis so that a relatively short, clear write-up of what you have done could be accomplished in as little as 10-15 pages (double spaced, 12 point font). You should not consider something this short as an option if you are doing a literature review. If you have questions about your particular project and what I would deem reasonable, do not hesitate to ask.

Style: All papers should follow the style guidelines of the *Journal of Public Economics*. Although content and accuracy are the most important aspects of a paper, the quality of the writing itself is a non-trivial component of what makes a good paper. In terms of citations, you will want a full works cited page and then use (Author, Year) parenthetical inserts in the text of your paper. Just ask me if you have any questions.

Deadlines:

- 1) No later than one month into the course you will pick a general topic and have discussed it with me. If you write something up, that is fine as well, but please make it no longer than one page.
- 2) No later than two months into the course you will need to have a formal proposal of the paper to me. This will be approximately 2 pages and will describe in a little more detail what you will actually be doing. These need to be on time and of a good quality- I will base a portion of your paper grade upon this stage. This is meant to mimic the way that many conferences, in their call for submissions will require a “detailed abstract” of the work, often as much as 8 months prior to the conference actually taking place.
- 3) No later than three months into the course (i.e., prior to Thanksgiving break) you will need to turn in a detailed outline of the paper with a tentative works cited list. 5-7 pages is a suggestion, but it will be more if you are writing a critical review and possibly less if you are doing empirical research. If you are doing the critical review option, you will want to have already identified the papers you will investigate and have begun to make some connections between them. If you are doing original empirical research, you will want to describe your data (you will definitely want to HAVE your data in hand at this point if not much earlier) and you will describe the approach you will be taking. You do not need results at this point but it would be a good idea to at least have started working with your data. If you are doing original theoretical research, you will need to convince me you have already started to make progress on putting your model together and thinking about how it contributes to the literature. In general, the more detailed the outline the better off you are, for a number of reasons. This stage is also worth a portion of the grade.
- 4) By December 5th, you will need to turn in your paper. (Late papers will incur a daily penalty of 10% off the paper grade) We will spend time during the last week of class on the in-class presentations of your papers. We will talk more about this as that time nears. The presentation itself is worth 10% of your grade.

My suggestion is to try to stay AHEAD of this schedule, such that each time one of my deadlines is approaching you have an easy task facing you. This will help keep you on track for the final submission of your work.

Academic Honesty:

Students are expected to uphold OU’s high standards of academic integrity. This applies to all aspects of the course, but with particular emphasis on integrity with regards to the paper. If you are not familiar with the academic integrity standards to which you are being held, you should look into them.

Brief Overview of Topics to be Covered:

1. Introduction to Public Economics & General Background Papers
2. Collective Decision Making
3. “Social Contract” theory & extensions to Collective Decision Making
4. Market Failure: Externalities
5. Market Failure: Public Goods
6. Local Public Goods & Estimating the Demand for Local Public Goods
7. Theory of Club Goods & the Emerging Role of Private Governments
8. Housing Policy, the Property Tax, and the Effects of Land Use Regulation

Readings List:

This course does not have a textbook, but will be based on important readings from the Public Finance literature. All readings listed in **BOLD** will be treated as required readings and will be discussed, at least in part, in class. These are also the “three questions” readings. I will verbally communicate the readings to be covered each meeting, you will want to stay current. In addition, papers are listed for some of the sections (but not all) that have a star and a capital P in front of them. These papers are those suitable for student presentations. You will only be responsible for those papers selected. (But once a paper is selected, I will expect all students, not just the presenter(s), to be familiar with it) I will adjust exam questions based on which papers are selected. Students other than the presenter are only expected to have taken a brief look over the paper. Listed readings without either one of these markings are purely optional and I will not expect that they have been read. I just wanted to list them as a resource for you.

In addition, I have several textbooks that contain good write-ups on many of the topics. These will not be covered in class explicitly, but because they often do a good job of synthesizing the material coming from a wide body of literature, they are fantastic background reading. I have copies of all the listed “textbooks” so if you see any readings listed from them, come to me if you want to copy them. I also have a compiled binder of the required readings (with many of the optional readings as well) that is available.

Useful Texts in Public Finance:

1. Rosen, Harvey and Ted Gayer, *Public Finance*, 2008, 8th edition (or earlier edition)
2. Bruce, Neil, *Public Finance and the American Economy*, 2001.
3. Musgrave, Richard, and Peggy Musgrave, *Public Finance in Theory and Practice*, (1973 original edition, I have the 1980 printed 3rd edition)
4. Hindriks, Jean and Gareth Myles, *Intermediate Public Economics*, 2006.
5. Bagchi, Amaresh, *Readings in Public Finance*, 2005.

The first two are primarily used as undergraduate texts and will be particularly useful if you *have not recently had* an undergraduate level Public Finance class. Hindriks & Myles covers essentially the exact same topics as the first two texts, but uses calculus and is often a textbook for graduate classes. Musgrave & Musgrave is a classic in the field and has essentially shaped all textbooks that have followed. Bagchi has a handful of readings that are particularly useful.

Articles & Book Chapter Readings:

(Note that the reference information is thin because these readings are already put together in a binder that you will have access to for making copies)

1. Introduction to Public Economics & General Background Papers

Hayek, F.A., (1945), “The Use of Knowledge in Society,” *American Economic Review*.

Musgrave, Richard, (1996), “The Role of the State in Fiscal Theory,” *International Tax and Public Finance*.

Dreze, Jacques, (1995), “Forty Years of Public Economics,” *Journal of Economic Perspectives*.

Optional Background Textbook readings: Bagchi, Chapter 1 (only through page 37) as well as any of the early chapters across all four of the more standard textbooks (there is a lot of overlap).

2. Collective Decision Making: An Introduction

Bowen, Howard, (1943), “The Interpretation of Voting in the Allocation of Economic Resources,” *Quarterly Journal of Economics*.

Black, Duncan, (1948), “On the Rationale of Group Decision-Making,” *Journal of Political Economy*.

Tideman, Nicolaus, and Gordon Tullock, (1976), “A New and Superior Process for Making Social Choices,” *Journal of Political Economy*.

Besley, Timothy, and Stephen Coate, (1997), “An Economic Model of Representative Democracy,” *Quarterly Journal of Economics*.

P Alesina, Alberto, (1988), “Credibility and Policy Convergence in a Two-Party System with Rational Voters,” *American Economic Review*.

Buchanan, James, and Gordon Tullock, (1962), *The Calculus of Consent*. Ann Arbor, University of Michigan Press. (We will cover a few of the main ideas in class and you will be responsible for those.)

Downs, Anthony, (1957), *An Economic Theory of Democracy*. Harper & Row.

Arrow, Kenneth, (1951), *Social Choice and Individual Values*. Yale University Press.

Olson, Mancur, (1965), *The Logic of Collective Action*. Harvard University Press.

3. The “Social Contract” theory of the State & Extensions to Collective Decision Making

Gordon, Scott, (1976), “The New Contractarians,” *Journal of Political Economy*.

Rawls, John, (1971), *A Theory of Justice*. Cambridge Press.

Buchanan, James, (1975), *The Limits of Liberty*. University of Chicago Press.

P McGuire, Martin, and Mancur Olson, (1996), “The Economics of Autocracy and Majority Rule,” *Journal of Economic Literature*.

4. Market Failure: Externalities

Coase, Ronald, (1960), “The Problem of Social Cost,” *Journal of Law and Economics*. (please see me about this one, it is quite long with many examples)

Ayres, Ian, and Steven Levitt, (1998), “Measuring Positive Externalities from Unobservable Victim Precaution: An Empirical Analysis of Lojack,” *Quarterly Journal of Economics*.

* P * Oates, Wallace, (1995), “Green Taxes: Can We Protect the Environment and Improve the Tax System at the Same Time?” *Southern Economic Journal*.

* P * Oreopoulos, Philip, (2003), “The Long-Run Consequences of Living in a Poor Neighborhood,” *Quarterly Journal of Economics*.

Any of the texts will have at least one standard chapter on externalities.

5. Market Failure: Public Goods

Samuelson, Paul, (1954), “The Pure Theory of Public Expenditure,” *Review of Economics and Statistics*.

Samuelson, Paul, (1955), “A Diagrammatic Exposition of a Theory of Public Expenditure,” *Review of Economics and Statistics*.

Bator, Francis, (1957), “The Simple Analytics of Welfare Maximization,” *American Economic Review*.

Lindahl, Erik, (1964), “Just Taxation- A Positive Solution,” translated from German and included in *Classics in the Theory of Public Finance*, eds. Richard Musgrave and Alan Peacock.

Holcombe, Randall, (1997), “A Theory of the Theory of Public Goods,” *Review of Austrian Economics*.

* P * Andreoni, James, and Abigail Payne, (2003), “Do Government Grants to Private Charities Crowd out Giving or Fund-Raising?” *American Economic Review*.

* P * Malpezzi, Stephen, and Kerry Vandahl, (2002), “Does the Low-Income Housing Tax Credit Increase the Supply of Housing?” *Journal of Housing Economics*.

* P * Bergstrom, Ted, Larry Blume, and Hal Varian, (1986), “On the Private Provision of Public Goods,” *Journal of Public Economics*.

* P * Rege, Mari, (2004), “Social Norms and Private Provision of Public Goods,” *Journal of Public Economic Theory*.

Any of the texts will have at least one chapter on public goods.

6. “Local” Public Goods & Estimating the their Demand

Tiebout, Charles, (1956), “A Pure Theory of Local Expenditures,” *Journal of Political Economy*.

Bewley, Truman, (1981), “A Critique of Tiebout’s Theory of Local Public Expenditures,” *Econometrica*.

Borcherding, Thomas, and Robert Deacon, (1972), “The Demand for the Services of Non-Federal Governments,” *American Economic Review*.

* P * Rhode, Paul, and Koleman Strumpf, (2003), “Assessing the Importance of Tiebout Sorting: Local Heterogeneity from 1850 to 1990,” *American Economic Review*.

* P * Bergstrom, Theodore, and Robert Goodman, (1973), “Private Demands for Public Goods,” *American Economic Review*.

* P * Epple, Dennis, and Richard Romano, (1996), “Public Provision of Private Goods,” *Journal of Political Economy*.

* P * Dawkins, Casey, (2005), “Tiebout Choice and Residential Segregation by Race in US Metropolitan Areas, 1980-2000,” *Regional Science and Urban Economics*.

Rubinfeld, Daniel, (1987) “The Economics of the Local Public Sector”, Chapter 11 in *Handbook of Public Economics, vol. 11*, Eds. A.J. Auerbach and M. Feldstein.

7. Strategic Interaction among Local Governments

Brueckner, Jan, (2006), "Strategic Interaction among Local Governments," in Ed. R. Arnott and D. McMillian, *A Companion to Urban Economics*, Blackwell Pub.

AND/OR

Brueckner, Jan, (2003), "Strategic Interaction Among Governments: An Overview of Empirical Studies," *International Regional Science Review*.

* P * Rork, Jonathan, (2003), "Coveting thy Neighbors' Taxation." *Nat. Tax Journal*.

8. Theory of Club Goods & the Emerging Role of Private Governments

Buchanan, James, (1965), "An Economic Theory of Clubs," *Economica*.

Helsley, Robert, and William Strange, (2000), "Potential Competition and Public Sector Performance," *Regional Science and Urban Economics*.

* P * Brooks, Leah, (2007), "Volunteering to be Taxed: Business Improvement Districts and the Extra-Governmental Provision of Public Safety," *Journal of Public Economics*.

* P * Cheung, Ron, (2007), "The Interaction between Public and Private Governments: An Empirical Analysis," *Journal of Urban Economics*.

Sandler, Todd, and John Tschirhart, (1980), "The Economic Theory of Clubs: An Evaluative Survey," *Journal of Economic Literature*.

Scotchmer, Suzanne, (2002), "Local Public Goods and Clubs," in *Handbook of Public Economics Vol.4*.

Hindriks and Myles Chapter 6 is a good background read on club goods.

9. Housing, the Property Tax, and Local Land Use Regulation

Mieszkowski, Peter, (1972), "The Property Tax: An Excise Tax or a Profits Tax?" *Journal of Public Economics*.

Mieszkowski, Peter and George Zodrow, (1989), "Taxation and the Tiebout Model: The Differential Effects of Head Taxes, Taxes on Land Rents, and Property Taxes," *Journal of Economic Literature*.

Arnott, Richard, (2005), "Neutral Property Taxation," *Journal of Public Economic Theory*.

Fischel, William, (1992), “Property Taxation and the Tiebout Model: Evidence for the Benefit View from Zoning and Voting,” *Journal of Economic Literature*.

Ihlanfeldt, Keith, (2004), “Exclusionary Land-use Regulations within Suburban Communities: A Review of the Evidence and Policy Prescriptions,” *Urban Studies*.

Burge, Gregory, and Keith Ihlanfeldt, (2006), “Impact Fees and Single-Family Home Construction,” *Journal of Urban Economics*.

Burge, Gregory, Arthur Nelson, and John Matthews, (2007), “Effects of Proportionate-Share Impact Fees,” *Housing Policy Debate*.

* P * Fishel, William, (1990), “Do Growth Controls Matter?” *Lincoln Institute of Land Policy*.

* P * Calabrese, Epple, and Romano, (2007), “On the Political Economy of Zoning,” *Journal of Public Economics*.

* P * Pollakowski, Henry, and Susan Wachter, (1990), “The Effects of Land-use Constraints on Housing Prices,” *Land Economics*.

* P * Fischel, William, (2006), “A Theory of Municipal Corporate Governance with an Application to Land-Use Regulation,” in Ed. R. Arnott and D. McMillian, *A Companion to Urban Economics*, Blackwell Publishing.

* P * Wilson, John, (2006), “Property and Land Taxation,” in Ed. R. Arnott and D. McMillian, *A Companion to Urban Economics*, Blackwell Publishing.

Rubinfeld, Daniel, (1987) “The Economics of the Local Public Sector”, Chapter 11 in *Handbook of Public Economics, vol. 11*, Eds. A.J. Auerbach and M. Feldstein.

Green, Richard, and Stephen Malpezzi, (2003), *A Primer on U.S. Housing Markets and Housing Policy*, The Urban Institute Press.

Ingram, Gregory, and Yu-Hung Hong, (2007), *Land Policies and their Outcomes*, Lincoln Land Institute. (See me if you want a copy of this one)