

ECON 4353: Public Finance- Fall 2007
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: MWF 10:30 AM- 11:20 PM

Office Location: 325 Hester Hall

Office Hours: MWF 9:30AM- 10:15AM

Office Telephone: 325-2358

Class Meeting Room: 207 Sarkeys EC

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

As we progress through the course, we will address both the positive and normative aspects of government activity. Our *positive* analysis will focus on what the government (mainly the US but other countries as well) actually *does* and what effects these actions have on economic behavior. Our *normative* analysis will focus on what economic theory would indicate the government *should* do. By the end of this course you should be able to think critically about all sorts of public polices using the analytical tools of economics.

Prerequisites: This course is an applied microeconomics course. Familiarity with the basic tools of microeconomic analysis (market equilibrium, consumer choice theory, producer and consumer surplus, etc.) learned in Principles of Microeconomics (1123) and developed in Intermediate Price Theory (3113) is typically assumed.

Text: *Public Finance*, by Harvey Rosen & Ted Gayer, McGraw-Hill, 8th ed., 2008. Rosen is the main textbook. I will also occasionally hand out copies of other short readings (journal or newspaper articles, etc.) in class.

Office Hours: Regular office hours are scheduled (see above) and I am also available by appointment outside of those times. Please feel free to stop by my office but I reserve the right to “be busy” if it’s not during office hours or a scheduled meeting time. No harm in trying though- I’m very rarely unavailable. Also, I always try to be prompt when responding to questions over email.

Grading

Midterms & Final Exam: There will be 2 midterms, each worth 20% of your final grade, and a final exam worth 30%. The exam dates are scheduled and marked in this syllabus- PLEASE note them. The final exam will be cumulative *but will heavily emphasize the material presented in the last section of the course*. Also realize that the material builds upon itself. Analytical skills you develop early in the course will be used in addressing problems from later sections. The length and rough description of each

exam will be discussed in class prior to the exam date. Problems may include multiple choice questions, short essays, analytical problems, and longer essays. Mathematical questions may require the use of a calculator- students should bring calculators but **will not be allowed to use graphing and/or cell phone calculators (please note this and buy a \$2.95 simple calculator!!)**. Students not taking an exam on the scheduled date will have 1 week from the exam date to make it up. You must contact me to set up a time to take your late exam. All exams not taken within one week will be given a zero. The final is scheduled for Tuesday, December 11th, at 8:00 AM. Contact me IMMEDIATELY if an emergency arises and you miss the final.

Problem Sets: You will have 3 problem sets, each one (roughly) matching up with one of the three examinations. Collectively, the 3 sets will account for 10% of your final grade. Problem sets are due at the beginning of class on the due date. *Late problem sets will be accepted but penalized* according to the following schedule: same day but not at the beginning of class 75% credit, after due date but by the next class meeting time 50%. Problem sets turned in later than the following class period will be given no credit. As a BONUS, students turning in all 3 problem sets on time, completed, and with a passing grade on each will get 1 full point added to their final grade (for the course, not the problem set average). Problem sets are graded for accuracy and completeness just as exams questions will be- they are not meant to be “easy” or “effort” grades (i.e., turn it in and get full credit) Often answers can be correct, in the sense that nothing written is wrong.....but highly incomplete, in the sense that many important aspects of the answer are not covered. This is one of the more subtle issues involved with grading essays or longer problem based questions. One goal of the problem sets is to give you an idea of how exams questions will be graded. Students are allowed and *encouraged* to work in small groups to complete these assignments. However, each student must write (or type) up his/her own set of answers. Please understand the purpose of the problem sets is to prepare you for the exams- not to constitute a large portion of your grade. Other than your own consciences, I have no way to protect against you simply relying upon the work of someone else. However, no understanding of the material will result from this and students choosing this route will be left unprepared for the exams- which constitute the majority of your grade. Also, please see the ‘Policy on academic dishonesty’ section of this syllabus for further policies regarding short essay type questions on the problem sets.

Short Paper: We will talk much more about the paper before it is due (in class, Monday, November 19th) but here are some brief details. For the paper you must choose a *currently used* or *currently proposed* government policy to write about. The policy must have a connection to public economics. (So although they are very interesting, policies relating purely to social issues (e.g., flag burning bans, prayer in public schools, etc.) will not work. This could include (but is not limited to) a discussion of how the policy may affect economic behavior, spending, educational attainment, investment, employment, or even personal choices like how many children to have or whether or not to marry. A more detailed description of my expectations for the paper will be made available during the semester. The paper is worth 20% of your grade.

Finding a topic: Lots of great places to find topics are readily available, just a few are: your textbook, current newspaper/magazine articles, economic policy journals, websites, and so on. Good topics focus on very SPECIFIC and manageable policies or focus on just ONE specific aspect of a broad policy. The goal of a “short paper” is not consistent with a topic like “Medicare”, so choose something smaller- perhaps only focusing on prescription drug coverage for patients on Medicare. Policies may be federal, state, local, or even international. Here are a few examples for paper topics that you may choose from- but please feel free to choose your own. (Choose a topic that you find interesting!)

- Taxation of cigarettes or alcohol. (or policies limiting their use)
- Should the government provide universal health insurance coverage?
- Tax deductions for charitable giving.
- Being able to deduct interest payments on home loan mortgages.
- The “Death” tax.
- How do balanced budget rules affect state’s economic health?
- Is the corporate income tax a good idea?
- Subsidizing higher education through student loans & scholarships.
- How does the earned income tax credit affect labor supply?
- How does the minimum wage affect labor supply and employment rates?
- How would a proposed increase in local sales taxes affect the economy?

Sometimes policies that seem to be purely “social issues” may actually have important economic implications. Policies protecting wildlife or limiting pollution are just a few examples.

If you prepare a *working draft of your paper at least one full week in advance of the due date*, I will take a look at it briefly and give you some feedback within a few days. The draft must be complete- no turning in sections or *extremely* rough drafts. Late papers will not receive full credit. Late but by Nov. 26th will be awarded 75% credit. By December 3rd is good for 50% credit. *No papers will be accepted after Dec. 3rd.*

Extra Credit: There will be no formal extra credit available for this class. Pleas for last minute extra credit projects/assignments to boost your grade will not be heeded.

Curve: Although I offer no extra credit there will be a consistent curve applied to each in class examination (homework will not be curved). I will curve the highest natural score to a 100 and add the number of points it takes to accomplish that to each person’s score. At times, this amount may end up quite small. Please do not rely upon the curve to bring up poor scores; they are typically less than 5 points.

Class Participation/Attendance: You are expected to be in class and contributing to the learning environment on a regular basis. Much of the learning process that occurs inside the classroom is not perfectly replicated from a reading of the textbook and studies have repeatedly shown the strong positive relationship between regular attendance and class performance. While there is no formal “class attendance” portion of the grade for the course I will take course attendance with both a *random and nonrandom* component, for the purposes of discretionary grade adjustment at the end of the term. The random part is as follows, for all days where an exam or due date (for the problem sets or paper) is *not*

scheduled I will flip a coin. The nonrandom part is that I also reserve the right to skip the coin toss and simply take attendance on certain (unannounced) days. These measures will affect your final grade as follows: I reserve the right, solely at my own discretion, to use the attendance figures to either *boost or penalize* your final grade by no more than two points on your final grade. A reasonable expectation on your part is that “strong” attendance will enhance your final grade, “weak” attendance can penalize your final grade, and “typical” or normal performance will leave your earned score unchanged. I treat all cases uniformly, such that attending say, 12 of 16 attendance days would receive the same adjustment than any other person attending the same number. You are expected to be on time and considerate during class. If you arrive late or leave early, please do not be disruptive. All cell phones should be off during class.

Grading Policy Summary: Your final numerical grade for the course will be determined by the weighted average of the numerical scores (100 point scale) coming from:

- Midterm 1: 20%
- Midterm 2: 20%
- Final Exam: 30%
- Problem Sets: 10%
- Short Paper: 20%

For a total of 100% with an additional consideration of up to 2 points in either the positive or negative direction being applied based upon class participation.

Letter grades will be determined as follows:

A: 90.0-100 B: 80.0-89.99 C: 70.0-79.99 D: 60.0-69.99 F: less than 60

Using ANY scale, cutoff between grades end up being somewhat “harsh” in the sense that two individuals with final averages just above and below the cutoff are given different grades even though they have similar scores. This is, unfortunately, unavoidable. Allowing “rounding” or “within one point is close enough” does not reduce the harshness of this truth. If an 89.50 rounds to a 90 and is given an A, then the difference between an 89.50 and an 89.49 is “harsh” just as the difference between an 89.99 and a 90.00 under my system. If you say, round the 89.49 up to an 89.5 which is then rounding to a 90, you even *STILL* have the same “harshness” between an 89.45 and an 89.44. All of this is included in the syllabus entirely to illustrate that when the end of the semester comes, there will *ALWAYS* be students very close to the cutoffs- both above and below. PLEASE keep in mind that the class participation measurement is, at least in part, meant to address this unavoidable situation. Strong attendance combined with a “close” score will result in the higher grade. Poor attendance combined with a “close” score (even one just marginally *ABOVE* the cutoff), will result in the lower grade. **NOTE THIS IMPORTANT FACT NOW:** A final average like a 90.something or an 80.something can *EASILY* result in the *LOWER* grade (B or C in these cases) with very poor attendance. Please do not be surprised or angry if/when this occurs. Also, great attendance does not “replace” mastering the material. To earn say, a B, you must obtain at least a natural 78 even if you have strong enough attendance to earn the full enhancement.

PLEASE stay aware of your grades as you progress through the course. By the time the final exam comes, 70% of your grade will already be set and large improvements to your average will be difficult, even given a strong final result.

Preparing for Class: Please be on time for class. In addition, this is an upper division course and our classroom interaction will be spent *discussing* the material. It is strongly recommended that you read though (or at least seriously skim through) the reading material prior to coming to a session where that material will be discussed. After the material is presented in class, it is then useful to re-read the text to make sure the most important ideas are clear to you. The final piece of the learning puzzle should be actually working out problems that are similar to those you will see on your exams and the final. The problem sets are meant to do this but I would also suggest going further and attempting other problems. (Such as those at the end of chapters)

Course Outline:

Introduction: (Weeks 1-2)

- Introduction (Chapter 1)
- Tools of Positive Analysis (Chapter 2)
- Tools of Normative Analysis and Welfare Economics (Chapter 3)

Section I: Market Failure: The role of Government in a Market Economy? (Weeks 3-5)

- Externalities (Chapter 5)
- Public Goods (Chapter 4)
- Political Economy (Chapter 6)

Midterm Exam 1 covering Introduction and Section I (Friday, Sept. 21st)

Section II: Government Expenditure Programs (Weeks 6-10)

- Cost-Benefit Analysis (Chapter 8)
- Health Care (Chapter 9 & 10)
- Social Security (Chapter 11)
- Income redistribution and expenditure programs for the poor (Chapters 12 & 13)

Midterm Exam 2 covering Sections II (Wednesday, October 24th)

Section III: Taxation and Government Revenue Programs (Weeks 11-15)

- Tax Incidence (Chapter 14)
- Equity and Efficiency issues (Chapter 15 & 16)
- The U.S. Tax system:
 - Personal Income Taxation (Chapters 17 & 18)
 - Corporate Taxes (Chapter 19)
 - Taxes on Consumption and Wealth (Chapter 21)

Section IV: Public Finance in a Multi-Tiered System (Week 16)

- Public Finance in a Federal System (Chapter 22)

Final Exam covering All Sections but with emphasis on Sections III & IV (Tuesday, December 11th, 8:00AM-10:00AM)

Desire to Learn and E-mail: Course materials and announcements will at times be posted on the Desire to Learn page for this course and when I have important messages to communicate I will e-mail students through that platform as well. This means you need to check your OU e-mail account and the course page somewhat regularly.

Comments: The above course outline is only meant to be a *GENERAL* outline. The amount of time we spend on each section may not follow these dates perfectly. The material covered on each exam also may not end up being exactly what is outlined above if we have covered more/less material than expected. Try to stay current/ahead on the course readings in order to get the most out of your classroom experience.

Policy on Academic Dishonesty: Although students are encouraged to discuss course content and problem sets with each other (and me), academic dishonesty of any nature will not be tolerated. Regarding the problem sets, I understand that certain problems may be answered using terminology/phrasing found in your textbook so that some answers will look identical. On the other hand, if the question is an essay type problem where you are actually writing to respond- I DO NOT want to see identical responses. Discussing a problem means multiple people may provide essay answers with the same points contained in each. *COPYING* is word-for-word, and copying will not be tolerated on these types of problems. If you are in doubt, err on the side of caution and try your best to put together your own answer after having discussed the problem with others. I reserve the right to give no credit for essay type answers that are identical to one another. Cheating of any type on an exam will result in a zero for that exam, which will have a serious result on your final grade. Issues of Plagiarism on the course paper will be handled *at a minimum with a zero for that item and in most cases with an automatic failure of the course along with other potential penalties at the University level.*

Students with Disabilities: Students with disabilities needing accommodation should: 1) register with the Office of Disability Services (ODS) and 2) bring a letter to me from the ODS indicating that you need academic accommodation. This should be done during the first week of class, or immediately after the disability has been diagnosed, so that an appropriate set of accommodations can be worked out.