

ECON 520 Public Economics I

Spring 2012

Instructor: Dr. Anita Alves Pena

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Class Meetings: TR 12:30-1:45pm, Clark C363

Office Hours: T 2:45-4:45pm

Textbook: J. Hindriks and G.D. Myles: Intermediate Public Economics, 2006 (H&M).

Course website: login at <http://ramct.colostate.edu>

Objectives of the Public Economics Field Sequence:

Public economics is an area of applied microeconomics. The field sequence is concerned with analysis of the welfare foundations of public taxation and expenditure, including economic policy analysis especially cost-benefit analysis (CBA). On the tax side, topics include optimal tax theory, incidence (equity and distribution of tax burden), and efficiency (effects of taxes on resource allocation). On the expenditure side, topics include theory of public expenditure, state and local public goods, redistribution and welfare, education, social insurance, and health care policy. Topics will be distributed across ECON 520 and 720 depending on instructor and student interest. We will review classic and recent literature in public economics, and expand the analytics of government tax policy and public expenditure to the beginnings of independent research.

Prerequisites:

First-year graduate microeconomics and econometrics, or equivalent. I will assume that you are already familiar with at least first-semester level theory and tools from these sequences and therefore can read, understand, and discuss academic literature within economics.

Workload:

There will generally be two to four assigned required readings (journal articles) per week which may take about one to two hours (or longer) each depending on your particular background. This is in addition to book chapter readings which provide overview and in addition to preparation of presentations and written assignments. The quality of class discussions depends on your preparation *whether or not you are presenter* so please keep this in mind even if nothing is physically due.

Grading:

The course will adhere to the Academic Integrity Policy of the Colorado State University General Catalog and the Student Conduct Code.

Class Participation (20%)

Attendance, participation, and preparation (reading) for class is expected. Note that a relatively large percentage of your final grade therefore is in this category since the quality of class discussion really does depend on your comments, reflections, and questions.

Literature Presentations (15%)

Each of you will present one paper to the class from the syllabus below and lead subsequent discussion. Presentations should be of similar format to how papers are presented in an academic seminar. This means that you should have presentation slides. Preparing these presentations will give you a chance to polish your academic presentation skills and will give you detailed understanding of the papers you present. A sign up sheet and details will be available in class early in the semester.

Mock Referee Report (15%)

You will write a mock referee report based on a new working paper (not yet published in a journal) in public economics, broadly-defined. The paper you choose should relate to an area of public economics that is of interest to you. Recent papers can be found online on working paper lists and on author's websites. Links to possible sites will be provided on the course webpage. Reports should be two or three single-spaced typewritten pages. Reports should briefly summarize and then elaborately critique the paper (i.e. is the question well motivated, is appropriate data used, are identifying assumptions reasonable, is the model appropriate for the question, etc.) After you have chosen a working paper to review, you should send it to me for approval. Please note the due date (in class) for this and other assignments on the schedule below. The due date to choose a paper is well before the date that the report is actually due.

Literature Review (20%)

In lieu of a term paper, you will write an original literature review (not submitted in any other class) corresponding to a topic related to public economics (broadly-defined) which is of interest to you. The literature review should be 8-10 pages in length (double-spaced, one inch margins) and cover at least five journal articles or working papers. At least three papers (if not more) should

not appear on this syllabus. The concluding section should describe a possible research question that you could pursue to extend this literature and outline *in detail* how you could approach it (i.e. what precise question could be asked, what the research design could look like, what data could be used, etc.). The literature review will be due on the last day of regular class.

Presentation of Literature Review (10%)

You will present your topic and literature review to the class near the end of the term. Again, you should have presentation slides. You should aim to motivate class discussion in your presentation as well-thought out and presented topics may lead to dissertation chapters later! A sign up sheet and further details will be available in class later in the semester.

Take-home Final Exam (20%)

The take-home final exam will cover concepts and applications from literature reviewed in the course and will be primarily essay based. Your final submission should be proofread and typed. The take-home exam will be due during the university's final exam week as noted below.

Syllabus and Reading List:

This schedule is subject to change and will be revised later in the semester if necessary. Most papers on the reading list are available via JSTOR, NBER, or other online repositories. Please let me know if you are unable to locate a paper, and I will make it available. You are expected to complete the following reading whether or not we focus on specifics in class. Additional (optional) suggested readings are provided at the end of each chapter in H&M as these lists may be useful for your own research later on.

Introduction and Review of Tools for Welfare Economics, Week of January 16

- H&M Chapters 1-3, 12
- Arrow, K.J. (1950) "A Difficulty in the Concept of Social Welfare," *The Journal of Political Economy*, 58(4): 328-346.
- Rawls, J. (1974) "Concepts of Distributional Equity: Some Reasons for the Maximin Criterion," *American Economic Review*, 64(2): 141-146.
- Hines, J. (1999) "Three Sides of the Harberger Triangle," *Journal of Economic Perspectives*, 13(2): 167-186.

Public Goods, January 24 and Week of January 30

THURSDAY, JANUARY 26: NO CLASS

- H&M Chapters 5, 7
- Samuelson, P. (1954) "The Pure Theory of Public Expenditures," *Review of Economics and Statistics*, 36(4): 387-389. We will simultaneously discuss Samuelson's 1955 and 1958 articles:
 - Samuelson, P. (1955) "Diagrammatic Exposition of a Theory of Public Expenditure," *Review of Economics and Statistics*, 37(4): 350-356.
 - Samuelson, P. (1958) "Aspects of Public Expenditure Theories," *Review of Economics and Statistics*, 40(4): 332-338.
- Bergstrom, T., L. Blume and H. Varian, (1986) "On the Private Provision of Public Goods," *Journal of Public Economics*, 29: 25-49.

- Andreoni, J. (1988) “Privately Provided Public Goods in a Large Economy: The Limits of Altruism” *Journal of Public Economics*, 35: 57-73.

Clubs, Tax Capitalization, and Local Public Goods, Week of February 6

- H&M Chapter 6
- Tiebout, C.M. (1956), “A Pure Theory of Local Expenditures,” *Journal of Political Economy*, 64(5): 416-424.
- Buchanan, J.M. (1965), “An Economic Theory of Clubs,” *Economica*, 32(125): 1-14.
- Oates, W.E. (1969), “The Effects of Property Taxes and Local Public Spending on Property Values: An Empirical Study of Tax Capitalization and the Tiebout Hypothesis” *The Journal of Political Economy*, 77(6): 957-971.

TUESDAY, FEBRUARY 14: deadline to submit working paper for approval for use for mock referee report (email to anita.pena@colostate.edu)

Fiscal Federalism and Intergovernmental Relations, Week of February 13

- H&M Chapters 17-18
- Fisher, R. (1982), “Income and Grant Effects on Local Expenditures: The Flypaper Effect and Other Difficulties,” *Journal of Urban Economics*, 12: 324-345.
- Oates, W.E. and R.M. Schwab (1988), “Economic Competition Among Jurisdictions: Efficiency-Enhancing or Distortion-Inducing?” *Journal of Public Economics*, 35: 333-354.
- Holtz-Eakin, D. (1988), “The Line-Item Veto and Public Sector Budgets: Evidence from the States,” *Journal of Public Economics*, 35: 269-292.
- Poterba, J. (1995), “Capital Budgets, Borrowing Rules, and State Capital Spending,” *Journal of Public Economics*, 56(2): 165-187.

Education Policy, Weeks of February 20 and 27

- Feldstein, M.S. (1975), “Wealth Neutrality and Local Choice in Public Education,” *American Economic Review*, 65(1): 75-89.
- Fernandez, R. and R. Rogerson (1996), “Income Distribution, Communities and the Quality of Public Education,” *Quarterly Journal of Economics*, 111(1): 135-164.
- Epple, D. and R. Romano (1998), “Competition between Private and Public Schools, Vouchers, and Peer-Group Effects,” *The American Economic Review*, 88(1): 33-62.
- Hoxby, C.M. (2000), “Does Competition among Public Schools Benefit Students and Taxpayers?” *American Economic Review*, 90(5): 1209-1238.
- Hoxby, C.M. (2000), “The Effects of Class Size on Student Achievement: New Evidence from Population Variation,” *The Quarterly Journal of Economics*, 115(4): 1239-1285.
- Weimer, D.L. and M.J. Wolkoff (2001), “School Performance and Housing Values: Using Non-contiguous District and Incorporation Boundaries to Identify School Effects,” *National Tax Journal*, 56(2): 231-253.
- Behrman, J.R. and M.J. Rosenzweig (2002), “Does Increasing Women’s Schooling Raise the Schooling of the Next Generation?” *American Economic Review*, 92(1): 323-334.
- Epple, D., D. Figlio, and R. Romano (2004), “Competition between Private and Public Schools: Testing Stratification and Pricing Predictions,” *Journal of Public Economics*, 88: 1215-1245.

TUESDAY, MARCH 6: MOCK REFEREE REPORT DUE

Academic Debates: Examples from Education Policy, March 6

- Rothstein, J. (2007), “Does Competition Among Public Schools Benefit Students and Taxpayers? Comment.” *American Economic Review*, 97(5): 2026-2037.
- Hoxby, C.M. (2007), “Does Competition Among Public Schools Benefit Students and Taxpayers? Reply.” *American Economic Review*, 97(5): 2038-2055.

- Antonovics, K.L. and A.S. Goldberger (2005), “Does Increasing Women’s Schooling Raise the Schooling of the Next Generation? Comment” *American Economic Review*, 95(5): 1738-1744.
- Behrman, J.R. and M.J. Rosenzweig (2005), “Does Increasing Women’s Schooling Raise the Schooling of the Next Generation? Reply” *American Economic Review*, 95(5): 1745-1751.

THURSDAY, MARCH 8: NO CLASS

Week of March 12: SPRING BREAK, NO CLASS

TUESDAY, MARCH 20 (tentative): GUEST LECTURE

Economic Policy Analysis, March 22 and Week of March 26

- Dreze, J. and N. Stern (1987) “Chapter 14 The theory of cost-benefit analysis,” *Handbook of Public Economics*, Volume 2: 909-989. (I will provide a copy from the department’s volume.)

Optimal Taxation and Applications, Weeks of April 2 and 9

Note that these papers are more technically difficult than some of the others that we have examined in this course. We will therefore rely on class notes in addition to these readings.

- Diamond, P. and J. Mirrlees (1971), “Optimal Taxation and Public Production I: Production Efficiency,” *American Economic Review*, 61(1): 8-27. We will simultaneously discuss the companion paper:

Diamond, P. and J. Mirrlees (1971), “Optimal Taxation and Public Production II: Tax Rules,” *American Economic Review*, 61(3): 261-278.

- Saez, E. (2001), “Using Elasticities to Derive Optimal Income Tax Rates,” *Review of Economic Studies*, 68(1): 205-229.
- Gruber, J. and E. Saez (2002), “The elasticity of taxable income: evidence and implications,” *Journal of Public Economics*, 84: 1-32.
- Diamond, P. and E. Saez (2011), “The Case for a Progressive Tax: From Basic Research to Policy Recommendations,” *Journal of Economic Perspectives*, 25(4): 165-190.

Literature Review Presentations, Weeks of April 16, 23, and 30

THURSDAY, MAY 3: LITERATURE REVIEW DUE in class

WEDNESDAY, MAY 9: TAKE-HOME FINAL EXAM DUE, 12 NOON SHARP, my office