

**Syllabus: ECON 9450, Advanced Public Finance I
Fall, 2017**

Instructor: Prof. Andrew Feltenstein

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Class Meetings: MW 1:30 – 2:45 pm Sparks Hall 300

Textbooks:

Richard Tresch, “Public Finance: A Normative Theory” 2nd edition, 2002, Academic Press.
Jonathan Gruber, “Public Finance and Public Policy” 2nd edition, 2007, Worth Publishers.

Prerequisites

Students should be familiar with the basics of first year graduate microeconomics.

Goals

This course focuses upon issues in public expenditure analysis. The course first examines the foundations of welfare economics, using the various forms of market failure as an economic rationale for the existence of government. Then, market failures are used to examine the major types of public expenditures in many countries: public goods (including impure public goods, benefit-cost analysis, and preference revelation mechanisms), externalities, and asymmetric information. In addition, the issue of equity (i.e., the distribution of well-being), can be considered a form of market failure, and government policies toward the poor are also discussed.

Grades: will be based on

(1) Midterm 25%

(2) Class presentation 25%

(3) Term paper 50%

Miscellaneous:

- Academic dishonesty on the term paper will result in a score of zero.
- Please let me know if you have a disability that requires special accommodation for lectures or anything else.

Course outline:

We will use parts of of Tresch’s and Gruber’s books and also read a number of journal articles.

The following books will be on reserve at the library:

1. Atkinson & Stiglitz, *Lectures in Public Economics* (1980)
2. Auerbach & Feldstein, *Handbook of Public Economics*, Vol. 2 & 3. (1987 & 2002) (1980)
3. Shoven & Whalley, *Applying General Equilibrium* (1992)
4. Tresch, *Public Finance: A Normative Theory*, 2nd ed. (2002)
5. Gruber, *Public Finance and Public Policy* 2nd edition, (2007)

Atkinson & Stiglitz is a very useful book, but is out of print. It is available from Amazon, but is incredibly expensive. Up to you. Of course free stuff is floating around....

The journal articles are all available online

The course syllabus provides a general plan for the course; deviations may be necessary. A tentative schedule for the semester follows.

Lecture Topics: ECON 9450, Advanced Public Finance I

Economic Expenditure

Lecture topics

1. Introduction

Brief overview of the course

Syllabus and general outline of topics

2. Introduction to Welfare Economics

Read: Tresch, Ch. 1, 2 (Note that our discussion will cover somewhat different topics, but Tresch provides some interesting additional insights)

Read: Paul A. Samuelson (1956). "Social Indifference Curves." *The Quarterly Journal of Economics*, Vol. 70, No. 1, Feb., pp. 1-22.

3. A Critique of Welfare Economics

Read: Tresch Ch. 3, 4.

Read: Kenneth J. Arrow (1950). "A Difficulty in the Concept of Social Welfare." *The Journal of Political Economy*, Vol. 58, No. 4, Aug., pp. 328-46.

Read: Amartya Sen (1970). "The Impossibility of a Paretian Liberal." *The Journal of Political Economy*, Vol 78, No. 1, pp. 152-57.

4. Theory of the Second Best: Economic Rationale for Government

Read: Tresch, Ch. 12, 18

Read: R. G. Lipsey and Kelvin Lancaster. (1956-1957). "The General Theory of the Second Best." *The Review of Economic Studies*, Vol. 24, No. 1, pp. 11-32.

5. First Best Theory of Public Goods

Read: Tresch, Ch.5, 6

Read: Gruber, Ch. 5

Read: Paul A. Samuelson (1954). "The Pure Theory of Public Expenditure." *The Review of Economics and Statistics*, Vol. 36, No. 4, Nov., pp. 387-89.

Paul A. Samuelson (1956). "Diagrammatic Exposition of a Theory of Public Expenditures." *The Review of Economics and Statistics* Vol 27, pp. 350-56.

6. Second Best Theory of Nonexclusive Goods

Read: Tresch, Ch.19

Read: A.B. Atkinson and N.H. Stern (1974). "Pigou, Taxation, and Public Goods,"

Review of Economics Studies, Vol 41, pp. 119-28.

Read: Don Fullerton (1997). "Environmental Levies and Distortionary Taxation: A Comment". *The American Economic Review* 87(1): 245-51.

Read: J.D. Wilson (1991). "Optimal Public Good Provision with Limited Lump-sum Taxation," *The American Economic Review* 81 (1):153-66.

7. Solutions to the Preference Revelation Problem

Read: Tresch Ch. 6 (p. 154-169), 20.

Read: Theodore C. Bergstrom and Robert Goodman (1973), "Private Demands for Public Goods," *The American Economic Review*, 1973.

Read: Ronald Coase (1960), "The Problem of Social Cost" *Journal of Law and Economics*, 1-44.

Read: Charles Tiebout (1956), "A Pure Theory of Local Expenditures", *The Journal of Political Economy*, 416-424.

8. Private Provision of Public Goods

Read: Gruber Ch. 7.1-7.2

Read: T. Bergstrom, L. Blume, and H. Varian (1986). "On the Private Provision of Public Goods," *Journal of Public Economics*, Vol. 29, 25-49.

Read: Douglas Bernheim (1986), "On the Voluntary and Involuntary Provision of Public Goods," *American Economic Review*, Vol. 76 (4), pp. 789-93.

9. Free-Riding

Read: Tresch Ch. 6 (p. 170-202)

Read: Gruber Ch. 7.2-7.4.

Read: James Andreoni (1995), "Cooperation in Public-Goods Experiments: Kindness or Confusion", *The American Economic Review*, 891-904.

Read: Ledyard, John (1995). "Public Goods: A Survey of Experimental Research", in Dagal and Roth, *Handbook of Experimental Economics*.

10. Cost-Benefit Analysis

Read: Tresch, Ch. 23

11. Cost-Benefit Analysis (contd.)

Read: Tresch, Ch. 26.

Read: Diamond, P., and Hausman, J., "Contingent Valuation: Is Some Number Better than No Number?" *Journal of Economic Perspectives*, Fall 1994.

12. Cost-Benefit Analysis (contd.)

Read: Tresch: Ch. 27-28.

Read: Gruber: Ch. 8.

13. Social Discount Rate

Read: Tresch: Ch. 24

Read: Bazelon, Coleman and Kent Smetters (1999). "Discounting Inside the Washington, D.C. Beltway". *Journal of Economic Perspectives* 13(4): 213-28.

Read: Marglin, Stephen (1963). "The Opportunity Costs of Public Investment". *Quarterly Journal of Economics* 77(2): 274-89.

14. Social Discount Rate (cont'd)

Read Tresch: Ch. 25

Read: Atkinson and Stiglitz: p. 474-481.

Read: Arrow, K. J., and Lind, R., "Uncertainty and the Evaluation of Public Investment Decisions," *AER*, June 1970.

15. Methods of Program Evaluation

Read: Gruber, Ch. 3.

Read: Tresch, Ch. 8.

16. Worker's Compensation

Read: Krueger, Alan B. (1990). "Incentive Effects of Workers' Compensation Insurance." *Journal of Public Economics* 41: 73-99.

Read: Meyer, Bruce D., W. Kip Viscusi, and David L. Durbin (1995). "Worker's Compensation and Injury Duration: Evidence from a Natural Experiment". *American Economic Review* 85(3): 322-40.

17. Unemployment Insurance

Read: Gruber, Ch. 12.

Read: Ben-Horim, Moshe and Dror Zuckerman (1987). "The Effect of Unemployment Insurance on Unemployment Duration". *Journal of Labor Economics* 5(3): 386-90.

Read: Katz, Lawrence F. and Bruce D. Meyer (1990). "Unemployment Insurance, Recall Expectations, and Unemployment Outcomes". *Quarterly Journal of Economics* 105(4): 973-1002.

18. Disability Insurance

Read: Gruber, Ch. 14.

Read: Gruber, Jonathan (2000). "Disability Insurance Benefits and Labor Supply", *Journal of Political Economy*. 108: pp. 1162-1183.

Read: Black, Dan, Kermit Daniel, and Seth Sanders (2002). "The Impact of Economic Conditions on Participation in Disability Programs: Evidence from the Coal Boom and Bust." *American Economic Review* 92(1): 27-50.

19. Disability Insurance

Read: Gruber, Ch. 15

Read: Bound, John and Timothy Waidmann (2002). "Accounting for Recent Declines in Employment Rates among Working-Age Men and Women with Disabilities". *The Journal of Human Resources* 37(2): 231-50

20. Education

Read: Gruber, Ch. 11.

Read: Krueger, Alan (1999). "Experimental Estimates of Education Production Functions". *Quarterly Journal of Economics* 114(2): 497-32.

Read: Krueger, Alan B. and Diane M. Whitmore (2001). "The Effect of Attending a Small Class in the Early Grades on College Test-Taking and middle School Test Results: Evidence from Project STAR". *Economic Journal* 111: 1-28.

Read: Lazear, Edward (2001). "Educational Production." *Quarterly Journal of*

21. Education

Read: Hoxby, Caroline M. (2000). "Does Competition among Public Schools Benefit Students and Taxpayers". *American Economic Review* 90: 1209-1238.

Read: Hoxby, Caroline M. (2005). "Competition among Public Schools: A Reply to Rothstein". National Bureau of Economic Research Working Paper 11216.

Read: Rothstein, Jesse. (2000). "Does Competition among Public Schools Benefit Students and Taxpayers: A Comment on Hoxby". National Bureau of Economic Research Working Paper 1215.

22. Health Insurance

Read: Gruber, Ch. 16.

Read: Arrow, Kenneth J. (1963). "Uncertainty and the Welfare Economics of Medical Care", 1963, *American Economic Review* 53(5): 941-73.

Read: Akerlof, George A. (1970). "The Market for Lemons: Quality Uncertainty and the Market Mechanism". *Quarterly Journal of Economics* 84: 488-450.

23. Health Insurance

Read: Gruber, Jonathan and James Poterba (1996). "Tax Incentives and the Decision to Purchase Health Insurance: Evidence from the Self-Employed". *Quarterly Journal of Economics* 109(3): 701-33.

Read: Currie, Janet, and Jonathan Gruber (1996). "Saving Babies: The Efficacy and Cost of Recent Changes in the Medicaid Eligibility of Pregnant Women". *Journal of Political Economy* 104: 1263-1296.

Read: Hanratty, Maria J. (1996). "Canadian Health Insurance and Infant Health". *American Economic Review* 86 (1): 276-84.

24. Social Security

Read: Gruber, Ch. 13.

Read: Feldstein, Martin S. (1974). "Social Security, Induced Retirement, and Aggregate Capital Accumulation." *Journal of Political Economy* 82: 905-26.