

UNIVERSITY OF GEORGIA
Department of Economics

Spring Semester 2012

Economics 4300
Public Sector Economics

Prof. Greg Trandel

Sanford 112 Tu, Th at 12:30 p.m.
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Office Hours: Monday: 10:00 a.m. – 12:00 noon

Wednesday: 11:00 a.m. – 2:00 p.m.

or by appointment if you are not free during the above times

Nature of a Syllabus: Note that any course syllabus is a general plan for a course. It may be necessary to deviate from the plan laid out on these pages. The instructor will describe to the members of the class any such deviations.

Course Description: This class focuses on government's role in the economy. In a typical semester, that would involve looking at two functions of government: the spending and the revenue-raising sides. In these areas, the class generally asks three types of questions: what is (or isn't) appropriate action for the government to take, what the government actually does, and how such government policies alter people's well-being and behavior.

Due to recent economic events, this semester's class will also spend some time on a third aspect of government behavior: the potential for countercyclical fiscal policy.

After some introductory material, the class considers general theoretical justifications, and practical explanations, for government actions. We'll then consider some various actual government spending programs. We'll then turn to a description of the U.S. tax system, its effects, and possible ways in which it could be changed. Near the end of the semester, we'll also focus on budgetary issues (both short- and long-term).

When considering government actions (both spending and tax programs), the class will emphasize both how such programs affect individuals, and how they alter the behavior of people and the functioning of the economy. In doing this, the class uses both economic theory and the results of empirical research.

Many events that have occurred over the past couple years are related to topics that will be covered in this class. These include legislation such as the Patient Protection and Affordable Care Act of 2010, the late-2010 law that temporarily extended the Bush-era tax cuts and reduced social security payroll taxes (and did other things), and the late-2011 agreement that (again temporarily) kept SS taxes reduced. There was also the debate about the raising of the debt ceiling, the congressional supercommittee that didn't agree on a way to cut the deficit, and the resulting automatic cuts that will supposedly take place. The class will also consider the 2010 output — *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform* — of a potentially significant Washington committee (and, if time permits, a 2011 report entitled *Special Council on Tax Reform and Fairness for Georgians*). These reports recommended significant changes in tax structure — and in other policies — at the national and state levels.

The class will also consider changes that occurred farther back in time, such as the restructurings of the “welfare” system and the Medicare system. The possibility of substantial changes in the Social Security system, as well as further changes in Medicare, will also be covered.

Textbook and Readings: The text for this class is *Public Finance* by Harvey S. Rosen and Ted Gayer (9th ed., 2010, McGraw-Hill/Irwin). Almost all of this book will be assigned, and you should have access to a copy of it. I think the Rosen and Gayer is an unusually readable textbook. For a few topics, I will simply ask you to read the textbook coverage. On the other hand, some topics that will be covered in class do not appear in the textbook. For most of the class topics, however, both the text and class will be important.

To allow us to address some topics at a greater depth (and with more current information) than they are covered in Rosen and Gayer, some additional readings — both newspaper articles and some more “academic” works — will be assigned (and made available either in class or through the eLC system). Some of the material in these readings may appear on the exams, so you should treat the readings as (at least) equal to the text in importance.

Grading: Grades for this class will be based on the number of points earned out of a possible 300 points. The final exam is worth 100 points (or 33.3% of the semester-long point total), the two in-class exams are each worth 60 points (each 20% of the total), the two take-home quizzes are each worth 20 points (each 6.7%), one four-to-five page paper is also worth 20 points (6.7%), and two homework assignments are each worth 10 points (each 3.3% in total).

Semester grades will be based on a 90–80–70–60 scale. The plus/minus grading option will be used for students who are quite close to the *A/B* and the *B/C* dividing lines. Note, however, that no *C–* grades will be assigned.

Paper: You will be required to write a (roughly) four-to-five page paper in which you analyze a current policy issue. Each student will be able to choose his or her topic from a small menu of choices. One of the options will relate to proposals (that will be debated in the state legislature this spring) to fundamentally change Georgia’s tax system. More detailed information about this assignment will be provided in the third or fourth week of the semester. The paper is due the last day on which class meets (Thursday, April 26th).

Homework: Two homework assignments that count towards your semester grade will be distributed during the semester. These assignments will be due at the beginning of class on the following Thursdays: February 9th and March 29th.

Scores on the homework assignments will depend (in part) on whether or not a student’s answers are correct and (more importantly) on the amount of effort put into doing the assignment. Late homework will not be accepted. If, however, a student is unable to attend one of the relevant classes, he or she can hand in the homework early (up to 12:25 p.m. on the day the assignment is due) in Prof. Trandel’s office. Feel free to work together on homework. However, each of you is required to write up and submit an *independent* answer sheet. This means that word-for-word copies will *not* be accepted.

Exams: Tests will be given in class on the following Thursdays: February 16th and April 5th. These tests will be noncomprehensive and will cover the material presented in class up to and including the class preceding the exam, along with the relevant homework and reading material. The final exam will be given at 12:00 noon on Thursday, May 3rd and *will be comprehensive*.

Each test will be a mix of objective questions and questions that require written or calculated answers. The objective questions will generally be multiple choice. These questions can come from class alone, from the text alone, or from both sources. A good answer to a written-answer question will generally be a couple sentences long (i.e., shorter than “essay” length). For these questions, partial credit may be given.

To acquaint you with the form of the tests, I will hand out sample questions (generally taken from the exams that I used the last time I taught this class); you will get the first set of these one week before our first exam.

When the graded exams are returned, some class time will be spent reviewing the test questions.

A student who misses a test without making prior arrangements will receive a grade of zero on that exam. If any circumstances that will prevent you from taking an exam arise, please talk to me as soon as you can. If you have any special problems, such as a potential “incomplete” grade, you may wish to contact the office of the Vice President for Student Affairs, at 542-3564.

Subsidized Lunch: On Wednesday, January 18th, all students are invited (schedule permitting) to meet Prof. Trandel for lunch at Barberitos (259 E. Clayton St.). Obviously, nobody is required to attend this outing, but if anyone does, it will give us a chance to talk outside of a classroom setting. As a small inducement to attend, I’ll contribute \$2 to help pay for the lunch of anybody who shows up.

If any of you would like to attend such a gathering, but can’t make the above time because of class (or work) conflicts, feel free to suggest a date (and place) for a second meeting.

ECON 6300: Any student who is registered for ECON 6300 rather than ECON 4300 will have to complete an additional assignment. Please talk to me about this fairly early in the semester.

Class vs. Text: The lectures and the reading assignments in this class are designed to complement (rather than duplicate) each other. As a result, to get the full benefit of the class, you must both attend lecture and read the assignments.

The exams will reflect the fact that the lectures and the text are not perfect substitutes. In other words, some test questions will be based on class material that is not found in the textbook. Each exam will probably also have one or two multiple-choice questions that cover topics discussed in the text, but not in class.

I will not record attendance in this class, but the exam format ensures that your test scores (and your class grade) will suffer if you fail to attend class on a regular basis.

Academic Honesty: As a University of Georgia student, you have agreed to abide by the University’s academic honesty policy, “A Culture of Honesty”, and the Student Honor Code. All academic work must meet the standards described in “A Culture of Honesty” found at: <http://www.uga.edu/honesty/>.

Lack of knowledge of the academic honesty policy is not a reasonable explanation for a violation. Questions related to course assignments and the academic honesty policy should be directed to the instructor.

Miscellaneous: I know you hear this all the time, but I’m going to repeat it anyway. Please keep up to date — attend class regularly and read the assignments at the appropriate times. If you are having trouble understanding any of the material, come see me in my office hours.

On a related issue, please do not hesitate to ask questions during class. Any instructor needs to know when he or she is going too fast or not being clear. Please ask questions — you’ll perform a service for yourself, for your classmates, and for the instructor.

Class Schedule

The following list indicates (approximately) when we will cover various chapters in the Rosen and Gayer text. All the textbook readings are required.

Note that the textbook's Appendix — which largely reviews Intermediate Micro — is not explicitly assigned. I suggest you glance at this material on your own, and read it carefully if any of it looks unfamiliar.

As already noted, other readings will be distributed either in class or through eLC.

The exams will definitely be given on the days indicated. The schedule gives a rough idea of what material each exam will cover, but there is some flexibility in the schedule. As we approach each test, I will make clear exactly what that exam will cover (both in terms of topics and readings).

Jan. 10, 12: A few questions (and answers); Markets Without Government; start Empirical Tools *chs. 1, 3, 2.*

Take-Home Quiz I distributed

Jan. 17, 19: Finish Empirical Tools; Externalities and Related Policies *ch. 5.*

Take-Home Quiz I due Thursday, Jan. 19

Jan. 24, 26: Public Goods and Related Policies; Political Economy *chs. 4, 6.*

Jan. 31, Feb. 2: Social Insurance; Social Security *pp. 180–193, ch. 11, outside readings.*

Feb. 7, 9: Unique Features of Health Care; Medicare *chs. 9 (rest), 10.*

Homework I due Feb. 9.

Feb. 14: Catch up; discuss homework.

Feb. 16: EXAM I.

Feb. 21, 23: Patient Protection and Affordable Care Act of 2010 *outside readings*

Feb. 28, March 1: Income Redistribution; “Welfare” Programs; Unemployment Insurance *chs. 12, 13.*

March 6, 8: Tax Incidence; Tax Inefficiencies (Excess Burden) *chs. 14, 15*

Take-Home Quiz II distributed (approximately)

March 20, 22: Designing a Tax System; Start U.S. Income Tax System *chs. 16, 17.*

Take-Home Quiz II due (approximately)

March 27, 29: Finish U.S. Income Tax System *ch. 17*

Homework II due March 29th.

April 3: Catch up; discuss homework.

April 5: EXAM II.

April 10, 12: Taxes and Behavior (Labor Supply, Saving, ...); start Consumption-Based Taxation *ch. 18, 21.*

April 17, 19: Finish Consumption and Wealth Taxation; Corporate Taxation (maybe); Government Budgets and Deficits; Debt Ceiling *ch. 19, outside readings*

April 24, 26: Potential Long-Term Policy Changes; State and Local Issues; Property Taxes; Cross-Border Tax Issues *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform, ch. 22, pages 318–319, outside readings.*

PAPER due April 26th.

Thursday, May 3rd: Comprehensive FINAL EXAM at 12:00 noon.