

# Public Finance

Fall 2015

## Instructor Information

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Office Hours: Monday - Thursday 10:30 - 11:30 and by appointment

## Course Information

Section 1 (E/M-385-001) meets M W 2:30 p.m. - 4:20 p.m. in Beck Hall 113

Public Finance is the study of the role of the government in the economy. It is the branch of economics that seeks to understand and evaluate the government procurement of revenue, government expenditure, and the adjustment of one to the other. In this class we will examine the theory, character, and trends in public expenditures, revenues, and debt management of governments, at the local, state, and national level. We will also explore the field of Public Choice and its approach to the understanding of interactions between private and public entities. Public Choice is best defined as the application of the rational choice model to non-market decision-making.

## Required Textbook

*Public Sector Economics: The Role of Government in the American Economy* by Randall Holcombe

*Beyond Politics: The Roots of Government Failure* by Randy T. Simmons, Gordon Tullock

## Other Useful Books

*Make It Stick: The Science of Successful Learning* by Peter C. Brown, Henry L. Roediger III, and Mark A. McDaniel

*How to Read a Book: The Classic Guide to Intelligent Reading* by Mortimer J. Adler and Charles Van Doren

*They Say, I Say: The Moves That Matter in Academic Writing* by Gerald Graff and Cathy Birkenstein

*Economical Writing* by Deirdre McCloskey

*The Now Habit: A Strategic Program for Overcoming Procrastination and Enjoying Guilt-Free Play* by Neil Fiore

*Price Theory: An Intermediate Text* by David D. Friedman. Available for zero price on-line:  
[http://www.daviddfriedman.com/Academic/Price\\_Theory/PThy\\_ToC.html](http://www.daviddfriedman.com/Academic/Price_Theory/PThy_ToC.html)

## Class Etiquette

Professionalism is a habit. To form it, behave in the classroom as you would in a business meeting or at a conference:

1. Show up ahead of time – come to class early enough so that you can unpack and get settled before the class starts
2. Keep your phone out of sight - nothing is more distracting to a presenter than to see someone in the audience texting. It is a basic courtesy to not use your cell phones in class. And even if you aren't looking at your phone, it can get distracting if it starts lighting up on your desk.
3. Leave your laptop in the dorm – laptops create a visual barrier between you and others in the room and therefore hinder communication.
4. Eat elsewhere - it's ok to bring your coffee or any other soft drink to class but no food please. Noise and smell are an obvious distraction, plus, very few people look appealing when talking with food in their mouth (and yes, I will call on you just as you're chewing).
5. Leave the classroom the way you found it – as you're leaving the room, take a look around you and see if there is any trash that needs to be picked up or if you haven't left spare copies of the assignment behind.
6. Engage – with all the distraction out of the way there is only one thing left to do: participate.

## Grading Policy

Your final grade will be based on your performance in four categories:

1. Class Participation	10 points
2. Tests	2 x 20 40 points
3. Two Op-Eds or a Book Review	30
4. Group Paper and Presentation	20
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100 points	

### Grade scale:

		B+	87-89	C+	77-79	D+	67-69
A	94+	B	84-86	C	74-76	D	60-66
A-	90-93	B-	80-83	C-	70-73	F	0-59

It is important to note that A's are awarded for exceptional performance, B's are awarded for above the average performance and C's are awarded for satisfactory performance. I wish to highlight that a C is not a failing grade. This grade merely reflects that while your work is satisfactory, there remains room for improvement. There is no pre-set grade distribution for this class and I will use Moodle to communicate your progress. Feel free to check with me on your class performance, just make sure that "what's my final grade" is not the only question you ask me this semester.

## Class Participation

Class participation is crucial for your success in college. It will yield the greatest results if based on solid preparation. I expect you to study systematically, to remain engaged throughout each class, and to read all the assigned material before class. Your participation grades will be based on a variety of classroom and on-line activities. Keep in mind that not every class will provide opportunities for participation, some will constitute purely of lectures. However, if you miss a class in which participation was graded, there will be no make-up opportunities. Instead, at the end of the semester, I will drop your two lowest participation scores.

## Group Paper and Presentation

Your group will be tasked with evaluating a public policy from a public choice / public finance perspective. The goal of your project is to contribute to the policy debate and to offer economic explanation of the political process that generated the particular policy. In your paper you will be required to pay particular attention to the role interest groups play in the policy process.

Your grade will be determined by your ability to analyze the material from the economic perspective, by the quality of your writing, including spelling, grammar, and style, and by your ability to clearly communicate your ideas in writing and during the class presentation.

Submission timeline:

10/16 Submit a note of 100-250 words explaining the topic you have selected

11/13 Submit your project / report (15-20 pages)

11/30 - 12/09 Deliver class presentation

## Midterm and Final Exam

Your midterm and final exam will constitute of short essay questions. Before each exam, I will provide you with a study guide. If you master the study guide questions, you will have no difficulties on the exam. The study guide will be closely related to the questions you will encounter in reading guides and in in-class quizzes. If you miss a test without notifying me, you will receive a score of zero. If you find yourself in need of rescheduling, keep in mind the following constraints:

- Should you have a conflicting obligation, you need to speak with me at least a week before the test so that we can arrange an alternative time for you to take the test.
- Should you be unable to attend the test due to sickness, you need to send me an email at least four hours before the test providing an alternative time at which you would like to take the exam.

You will be allowed an entire class period to complete each test. You can use an abacus, slide-rule, or a basic calculator but no graphing calculators are allowed. Cell phones, tablets, and other electronic devices cannot be used in lieu of a calculator.

## Book Review

To see how economics can be used and misused, you will be required to read one of the following books and write an approximately 1000-word summary and critique. You will first submit a draft version of your review to which I will respond with comments that should put you on the right track for your final version. It is essential that you demonstrate your mastery of the economic way of thinking in the review. Your grade will be determined by your ability to analyze the material from the economic perspective as well as by the quality of your writing, including spelling, grammar, and style. Late submissions will be penalized by a twenty percent grade decrease for each day of lateness. I expect all students to strictly follow the academic honesty policy, which can be consulted online. Every case of academic dishonesty will result in a score of zero points and will be reported to dean of students. I encourage you to submit the book reviews for publication in academic journals. Should you do so, your grade for this assignment will be boosted by 10 percent.

Brennan, Jason F. 2014. *Why Not Capitalism?* Routledge.

Easterly, William. 2015. *The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor*. Basic Books.

Horwitz, Steven. 2015. *Hayek's Modern Family: Classical Liberalism and the Evolution of Social Institutions*. New York, NY: Palgrave Macmillan.

Leeson, Peter T. 2014. *Anarchy Unbound: Why Self-Governance Works Better Than You Think*. 1st edition. Cambridge: Cambridge University Press.

Munger, Michael C., and Kevin M. Munger. 2015. *Choosing in Groups: Analytical Politics Revisited*. New York, NY: Cambridge University Press.

Skarbek, David. 2014. *The Social Order of the Underworld: How Prison Gangs Govern the American Penal System*. 1 edition. Oxford: Oxford University Press.

Stringham, Edward Peter. 2015. *Private Governance: Creating Order in Economic and Social Life*. 1 edition. Oxford University Press.

Wagner, Richard E. 2012. *Deficits, Debt, and Democracy: Wrestling With Tragedy on the Fiscal Commons*. Edward Elgar Pub.

### Submission timeline:

10/23 Submit a short note explaining which book you have selected, why, and what you're expecting to learn from it (about 250 words)

11/20 Submit the book review

Late submission will be penalized by a ten percent grade decrease per day of lateness.

## Op-Eds

Your task is to write two op-eds, each offering a stance on a public policy. Your goal is to convince. Utilize any information you think will persuade the readers to consider the economic perspective. While op-eds are written to express authors' opinion, they also contain information. This information could be facts, statistics, anecdotes, or summaries of academic research.

Op-ed is a newspaper article that expresses the opinions of a writer who is usually unaffiliated with the newspaper's editorial board. Op-eds give an informed viewpoint on a topic that is of interest to the general public. The topic and opinion in the article are entirely up to you. Feel free to run your idea by me before you start writing, but don't feel required to do so.

If you are not familiar with op-eds a good place to start is the opinion page of your hometown newspaper, Wall Street Journal or the New York Times. Get a flavor of what op-eds are about and if you have trouble identifying a topic or backing up your opinion, please come to see me for assistance.

The best op-eds provide readers with new information or insight on a topic. Telling someone "People who don't recycle are selfish" is not informative and, ultimately not compelling. Telling the reader "Recycling reduces the amount of trash going into local landfills by X tons a year" is informative.

Your grade will be determined by your ability to analyze the material from the economic perspective as well as by the quality of your writing, including spelling, grammar, and style.

After turning in your final draft I encourage you to submit your op-ed for publication. Should you do so, your grade for this assignment will be boosted by 10 percent. Meeting the market test is what matters!

Length: 550-750 words

### Submission Timeline

10/23 – Submit your first op-ed

11/20 – Submit your second op-ed

Late submissions will be penalized by a ten percent grade decrease for each day of lateness.

I expect all students to strictly follow the academic honesty policy. Every case of academic dishonesty will result in a score of zero and will be reported to the dean of students.

Tentative Schedule					
Week	Date	Day	Topic	Holcombe <sup>1</sup>	Simmons
1	9/9/15	W	Introduction		
2	9/14/15	M	The Public Sector	Ch.1	
	9/16/15	W	Principles for Analyzing Government	Ch.2	
3	9/21/15	M	Property Rights and Economic Efficiency	Ch.3	Ch. 6
	9/23/15	W	Externalities and Public Goods	Ch.4 and 5	
4	9/28/15	M	The Economic Role of the State	Ch.6	
	9/30/15	W	Market Failures and Political Solutions		Ch. 1 and 2
5	10/5/15	M	An Economic Analysis of Democracy	Ch.7	
	10/7/15	W	Public Sector Demand	Ch.8	
6	10/12/15	M	<i>No Class: Nobel Conference</i>		
	10/14/15	W	Supply and Demand in Political Markets	Ch.9	
7	10/19/15	M	Review		
	10/21/15	W	<b>Midterm</b>		
8	10/26/15	M	<i>No Class: Fall Break</i>		
	10/28/15	W	Undemocratic Side of Democracy		Ch. 3
9	11/2/15	M	Pathological Politics		Ch. 4
	11/4/15	W	Politics of Free and Forced Rides		Ch. 5
10	11/9/15	M	Principles of Taxation and Tax Policy	Ch. 10 and 11	
	11/11/15	W	Taxes on Economic Transactions	Ch. 12 and 13	
11	11/16/15	M	Taxation of Income and Wealth	Ch. 13, 14, 15	
	11/18/15	W	Budgeting and Redistribution	Ch. 17 and 18	
12	11/23/15	M	<i>No Class: Conference Travel</i>		
	11/25/15	W	<i>No Class: Thanksgiving Break</i>		
13	11/30/15	M	Student Presentations		
	12/2/15	W	Student Presentations		
14	12/7/15	M	Student Presentations		
	12/9/15	W	Student Presentations		
15	12/14/15	M	Review		
	12/17/15	Th	<b>Final Exam (3:30-5:30)</b>		

<sup>1</sup> Additional readings will be posted on Moodle. All material should be read ahead of class.

## Tutoring

Free peer tutoring is available to help you with the assignments. Schedule and location will be communicated via Moodle.

## Disability Services

Gustavus Adolphus College is committed to ensuring the full participation of all students in its programs. If you have a documented disability (or you think you may have a disability of any nature) and, as a result, need reasonable academic accommodation to participate in class, take tests or benefit from the College's services, then you should speak with the Disability Services staff, for a confidential discussion of your needs and appropriate plans. Course requirements cannot be waived, but reasonable accommodations may be provided based on disability documentation and course outcomes. Accommodations cannot be made retroactively; therefore, to maximize your academic success at Gustavus, please contact Disability Services as early as possible. Disability Services ([www.gustavus.edu/advising/disability/](http://www.gustavus.edu/advising/disability/)) is located in the Academic Support Center. Disability Services Coordinator, Kelly Karstad, ([kkarstad@gustavus.edu](mailto:kkarstad@gustavus.edu) or x7138), can provide further information.

## Help for Multilingual Students

Support for English learners and multilingual students is available through the Academic Support Center's English Learning Specialist ([www.gustavus.edu/advising/](http://www.gustavus.edu/advising/)). The ELS can meet individually with students for tutoring in writing, consulting about academic tasks, and helping students connect with the College's support systems. When requested, the ELS can consult with faculty regarding effective classroom strategies for English learners and multilingual students. The ELS can provide students with a letter to a professor that explains and supports appropriate academic arrangements (e.g., additional time on tests, additional revisions for papers). Professors make decisions based on those recommendations at their own discretion. In addition, English learners and multilingual students can seek help from peer tutors in the Writing Center ([www.gustavus.edu/writingcenter/](http://www.gustavus.edu/writingcenter/))