Public Economics

Text: Economics of the Public Sector (4th Edition), by Joseph Stiglitz and Jay Rosengard

Exams: There will be a midterm and a final, each counting for 1/2 of the grade. The final is at 10 am on Thursday, April 28.

Public economics looks at government spending and taxation policies in the context of a market economy. The course will first review the operation of a market economy with no imperfections. In that context, the only role for government would be for distributional purposes. Then we will consider how market imperfections can create a role for government consumption and production. Once the government engages in such activities, the mechanisms by which it makes decisions become important. These can be done by democratic procedures or by more technocratic processes such as cost/benefit analysis. The general analyses developed to this point will then be applied to consider specific government programs such as defense, health, and education. The course then turns to a positive and normative analysis of the tax instruments the government can use to fund its various programs. Some additional topics are how allocation occurs when there are multiple levels of government from a national government down to various local governments and to analyze government funding programs through borrowing instead of taxation.

Syllabus

I. Overview of the Public Sector
   Chapters 1 & 2

II. Review of Welfare Economics
    Chapters 3, 4, & 7

III. Public Goods and Externalities
     Chapters 5 & 6

IV. Public Production
    Chapter 8

V. Mechanisms for Allocation
   Chapters 9, 10, & 11
VI. Analysis of Specific Programs
   Chapters 12 – 16

VII. Taxation Theory
    Chapters 17 – 21

VIII. Particular Taxes in Practice
      Chapters 22 – 25

IX. Federalism
   Chapters 26 & 27

X. Debt and Deficit
   Chapter 28

Depending upon how rapidly we go, not all of the sections will be covered in full. Everything in sections I to V will be covered. It is unlikely that we will have time for sections IX or X and in sections VI and VIII there is likely to be time to analyze only some of the specific programs or taxes.