

ECONOMICS OF THE PUBLIC SECTOR: ECON 4211-001  
Department of Economics, University of Colorado  
Fall 2012

Class time: M,W,F: 11:00-11:50 a.m. Room: ECON 119  
Professor: Charles de Bartolome Office: ECON 203

*Course Assignments and Desire2Learn:*

All course assignments, problem sets and some lecture notes are posted on Desire2Learn which may be accessed at <http://learn.colorado.edu>.

Please note that six pages of each Adobe Acrobat file can be printed on a single sheet by clicking as: Print>Properties>Multipage>6

*Attendance at class:*

Woody Allen once remarked: "90% of life is just turning up". The best way to learn the material is to attend class. Reading the lecture notes posted on the web is not a good substitute for attendance. Attendance at class is expected and required.

*Administrative Drop:*

Because attendance is important and is expected, I will drop from the class any student who neither attends one the first three classes of the term nor gets special permission from me for his/her absence.

*Problem Sets:*

Problem sets with answers will be posted for each topic. The problem sets are an integral part of the course. They are designed to help you use the material and a significant part of the exams will loosely follow their format.

In addition, there are many questions at the end of each chapter in the textbook. I encourage you to work through these questions and I have posted the answers for your use.

*Grading:*

There will be a midterm exam, a paper and a final exam. The student's grade (before any adjustment for non-attendance) will be determined as:

- 41% Midterm,
- 10% Paper
- 41% Final
- 8%. In-class clicker questions

Concerning in-class clicker questions. I will use clicker questions to reinforce the main point of a lecture. Each correct answer will receive 1 point and an absence or an incorrect answer will receive zero points. In calculating your total score for all in-class clicker questions, I will sum your scores for all days, omitting your three lowest daily scores.

*Paper timeliness:*

It is important that the paper is handed in on the date due (to be announced). If the paper is not handed in by the date due, your course score will be lowered 5% . If the paper is not handed in by the day of the exam, *you will be graded Fail*. If you subsequently hand in the paper within 6 months of the final, your grade will be changed to the grade earned in the midterm, the final and the paper. If you do not subsequently hand in the paper within 6 months of the final, your grade will remain permanently as Fail.

*Contributing to the group in the creation of the paper:*

There have been instances in the past when "r ack@u@

*Classroom courtesy:*

Please turn your cell 'phone off prior to the start of class.

I believe that learning is enhanced if there is full concentration by both the instructor and the student. Therefore, usage of laptop computers in class is restricted to following the course notes. To facilitate this, laptops may only be used in the front two rows of the classroom.

*Students with Special Needs:*

If you qualify for accommodations because of a disability, please submit to me a letter from Disability

*Religious Observances:*

Campus policy regarding religious observances requires that faculty make every effort to reasonably and fairly deal with all students who, because of religious obligations, have conflicts with scheduled exams, assignments or required attendance. In this class, please let me know in a timely manner if one of the exam dates falls on a religious holiday you intend to observe and I will arrange for you to take a make-up. See policy details at:

[http://www.colorado.edu/policies/fac\\_relig.html](http://www.colorado.edu/policies/fac_relig.html)

*Classroom Behavior:*

Students and faculty each have responsibility for maintaining an appropriate learning environment. Students who fail to adhere to such behavioral standards may be subject to discipline. Professional courtesy and sensitivity are especially important with respect to individuals and topics dealing with differences of race, color, culture, religion, creed, politics, veteran's status, sexual orientation, gender, gender identity and gender expression, age, disability, and nationalities. Class rosters are provided to the instructor with the student's legal name. I will gladly honor your request to address you by an alternate name or gender pronoun. Please advise me of this preference early in the semester so that I may make appropriate changes to my records. See policies at

<http://www.colorado.edu/policies/classbehavior.html> and at

[http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student\\_code](http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code)

*Academic Integrity:*

All students of the University of Colorado at Boulder are responsible for knowing and adhering to the academic integrity policy of this institution. Violations of this policy may include: cheating, plagiarism, aid of academic dishonesty, fabrication, lying, bribery, and threatening behavior. All incidents of academic misconduct shall be reported to the Honor Code Council ( [honor@colorado.edu](mailto:honor@colorado.edu) ; 303-735-2273). Students who are found to be in violation of the academic integrity policy will be subject to both academic sanctions from the faculty member and non-academic sanctions (including but not limited to university probation, suspension, or expulsion). Other information on the Honor Code can be found at:

<http://www.colorado.edu/policies/honor.html> and at

<http://www.colorado.edu/academics/honorcode/>

## COURSE OUTLINE

| <u>Date</u>                       | <u>Topic</u>   | <u>Chapter</u> |
|-----------------------------------|--|----------------|
| 1. INTRODUCTION                   |  |                |
| 27 Aug                            | INTRODUCTION<br>The Four Questions of Public Finance<br>Separation of expenditure and taxes<br>Government size.<br>Normative v. positive | 1              |
| 29 Aug                            | FISCAL FEDERALISM<br>Assignment of responsibilities<br><br><i>Problem Set: Fiscal Federalism</i>   | 22             |
| 31 Aug                            | POSITIVE ECONOMICS<br>The need for a model   | 2              |
| 5 Sept                            | NORMATIVE ECONOMICS: THE OBJECTIVE<br>Pareto-efficiency<br>Welfare functions<br>Need for a model   | 3              |
| 2. BASE CASE: COMPETITIVE MARKETS |  |                |
| 7, 10, 12 Sept                    | PRIVATE GOODS<br>Competitive outcome.<br>First fundamental theorem   | 3 (cont)       |

### 3. MARKET FAILURE: PUBLIC GOODS

|                                |  |   |
|--------------------------------|--|---|
| 14, 17, 19, 21,<br>24, 26 Sept | <p>PUBLIC GOODS</p> <p>Non-rivalness and non-excludability.<br/>Efficient provision.<br/>Free-rider problem.<br/>Public vs. private provision.</p> <p><i>Problem Set:</i> Why the lights don't get turned off after class.<br/><i>Problem Set:</i> Non-excludable public good.<br/><i>Problem Set:</i> Excludable public good.</p> | 4 |
|--------------------------------|--|---|

### 4. GOVERNMENT FAILURE: PUBLIC DECISION-MAKING

|                        |   |        |
|------------------------|---|--------|
| 28 Sept                | <p>PUBLIC DECISION-MAKING</p>   |        |
| 1, 3, 5, 8, 10, 12 Oct | <p>Normative: Benefit-cost analysis</p> <p>Positive:</p> <p>Informed voters:</p> <ul style="list-style-type: none"><li>- majority voting - median voter theorem.</li><li>- cycling.</li><li>- Arrow impossibility theorem.</li></ul> <p>Uninformed voters:</p> <ul style="list-style-type: none"><li>- the iron triangle.</li></ul> <p><i>Problem Set:</i> Benefit-Cost Analysis.<br/><i>Problem Set:</i> Voting<br/><i>Problem Set:</i> Cycling.</p> | 8<br>6 |
| 15 Oct                 | <p>Review</p> <p>MIDTERM (7:00 - 9:00 p.m. in MUEN E0046 )</p>  |        |

## 5. MARKET FAILURE: EXTERNALITIES

|                               |  |   |
|-------------------------------|--|---|
| 17, 19, 22, 24, 26,<br>29 Oct | EXTERNALITIES<br>Efficient behavior.<br>Coase theorem.<br>Pigou taxes and subsidies.<br>Regulation.<br><br><i>Problem Set:</i> the Coase theorem.<br><i>Problem Set:</i> Pigou tax.<br><i>Problem Set:</i> Permit sales.<br><i>Problem Set:</i> Regulation | 5 |
|-------------------------------|--|---|

## 4. INCOME REDISTRIBUTION

|                          |   |        |
|--------------------------|---|--------|
| 31 Oct<br>2, 5, 7, 9 Nov | INCOME REDISTRIBUTION<br>Process or end-state criterion.<br>Equity and social welfare functions.<br>Utilitarianism.<br>Max-min and the original position.<br>The shrinking pie.<br>The equity v. efficiency trade-off.<br>Public provision of private goods.<br><br><i>Problem Set:</i> Social welfare and income redistribution.<br><i>Problem Set:</i> Redistribution Program | 12, 13 |
|--------------------------|---|--------|

## 5. TAX ANALYSIS

|                |   |                              |
|----------------|---|------------------------------|
| 12, 14, 16 Nov | PUBLIC FINANCE: TAX OR DEFICIT FINANCING<br>Ricardo equivalence.<br>Keynes view.<br>Overlapping-generation model.<br>Traditional argument.<br>Crowding-out of capital.<br>Social Security | 20<br><br><br><br><br><br>11 |
|                | <i>Problem Set:</i> Tax or deficit financing.   |                              |



*Problem Set: Social security and savings.*  
*Problem Set: Demographic issues*

26, 28, 30 Nov  
3 Dec

TAXATION: PRODUCT AND INCOME TAXES

15

Do sales taxes reduce consumption  
Do labor taxes reduce effort?  
Do capital taxes reduce savings?  
Excess Burdens

*Problem Set: Setting the product tax rate.*

*Problem Set: Product tax: excess burden.*

*Problem Set: Setting the income tax rate.*

*Problem Set: Income tax - excess burden.*

5, 7, 10, 12, 14 Dec

TAXATION: NORMATIVE RULES FOR SETTING TAX RATES  
Tax rules