Course description
Public economics (also known as “public finance”) is the branch of economics concerned with government expenditure and taxation, focusing primarily on microeconomic aspects of these activities. In this class, we will mainly consider the expenditure side of public economics. An in-depth exploration of tax policy, the other half of public economics, is offered in Econ 514 in the spring semester. Because it is a CDE course, Econ 504 is tailored to the interests of policymakers and policy analysts from developing and transition economies. It applies the tools of public economics to the microeconomic policy problems that are most pertinent in these countries, and includes much coverage of the institutional details of policies and empirical evidence in these types of countries. Econ 504 is a survey course providing brief introductions to many different microeconomic concepts and public policy issues that we think it is important for every CDE fellow to understand. Spring elective courses at the CDE provide you with the opportunity to investigate some of these particular issues in greater depth.

This semester’s course begins by laying out a general theoretical and empirical framework for thinking about public economics issues. Among the questions we address in this part of the course include: what should the goals of government be? What do “economic efficiency,” “equity,” and “social welfare” mean, how can these concepts help us think clearly about policy issues, and what are the philosophical disputes over these concepts? Why is it so challenging to find convincing empirical evidence on questions of public policy, and how can one learn to think critically about empirical evidence and to begin to distinguish more convincing evidence from less convincing evidence?

With that as background, we delve into the market failures that provide efficiency rationales for government intervention in the market, including externalities, public goods, imperfect competition, and asymmetric information. We also consider ways that human behavior might deviate from perfect rationality, and what that might imply for policy. Along the way, we apply these concepts to various examples of policy issues, including, among other things, the environment, education, health care, infrastructure, security, social insurance, and transfers to the poor. In each case we will think about the efficiency, equity, and other rationales for government involvement, and the pros and cons of different ways of designing policies to address the problems.

Next, we turn to the general question of how to make the government work better, addressing questions such as the following. What are the incentives of politicians and government employees, and how does the design of political institutions affect the degree to which they serve the public interest? How should responsibilities be divided up between the
central government and local governments, and what are the advantages and disadvantages of “decentralization?” What practical steps can be taken to improve the delivery of basic services? For example, how might one address problems of absenteeism and corruption?

After that, we’ll consider government policy towards education in greater depth, applying the full array of theoretical and empirical tools we’ve built up throughout the course. We then end the course by addressing the following question: when is it better to have the government own and produce things, and when is it better to privatize? We consider the examples of government-financed vouchers for privately-provided education, and privatization of state-owned enterprises such as water utilities, as case studies.

Throughout the course, we consider examples of empirical research, and to facilitate this, we will occasionally introduce empirical tools that are particularly useful for microeconomic policy evaluation.

Course materials
There is one required text for the course: *Public Finance and Public Policy*, by Jonathan Gruber (4th edition, Worth Publishers, 2013), which can be purchased at Water Street Books or online. The 1st, 2nd, and 3rd editions are acceptable substitutes (the reading list below includes page references for all three editions of Gruber’s book). Additional required readings, with many applications to policy issues in developing and transitional countries, will be made available in course reading packets. **All of the readings in the course packet readings (and the first reading assignment from Gruber’s textbook, but not later readings from that book) are also available as PDFs on the class “Glow” web site [https://glow2.williams.edu](https://glow2.williams.edu).**

The first printed course reading packet can be picked up in the reading packet room, located in the **Class of ’37 House** at 51 Park Street, which is open 8:00am – 3:00pm Monday through Friday from September 1st through the end of fall semester. Here’s a map to help you find it:
You must bring your student ID and fill out a form (available at Class of ’37 House) to get your reading packet. A second course reading packet will be made available a little later in the term, once the initial rush at office services is over and we have a better idea of the enrollment in the class.

Students are expected to read the textbook selections and assigned articles from the reading packet before class and be prepared to discuss them on the days indicated in the syllabus. Each week I will e-mail you a guide to the next week’s readings, including a set of discussion questions to help you prepare for class. Depending on how things go, as the semester progresses, I may modify when we cover certain readings, or skip some, or tell you to emphasize some parts of the reading and skim others – I will make this clear in the weekly e-mail guides. All readings represent testable material; my e-mail guides to the readings and what I cover in class will be good guides to what you need to know about the readings for the exam. I will not expect you to memorize names of authors or to address points in the reading that were never mentioned in class.

Course web page
The course web page is available through the new version of Glow: [http://glow2.williams.edu/](http://glow2.williams.edu/)

All readings (except for the textbook), assignments, handouts, etc., will be posted there (in some cases they will be added gradually as the semester progresses).

Class meeting time
Class meets 11:00am – 12:15pm in the CDE classroom. During the first week of classes, we will meet on Friday. After that, class normally meets Mondays and Wednesdays.

Course requirements
Your grade will be determined according to the following grading formula:

<table>
<thead>
<tr>
<th></th>
<th>CDE fellows</th>
<th>Undergraduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDE orientation</td>
<td>10%</td>
<td>-</td>
</tr>
<tr>
<td>Econ 504 writing assignment, due Mon. Dec. 8</td>
<td>-</td>
<td>10%</td>
</tr>
<tr>
<td>Econ 504 homework assignments (about 5)</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Econ 504 class participation</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Econ 504 midterm exam, 10am-12:30pm Wed. Oct. 15 in the CDE classroom</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Econ 504 final exam (tentatively scheduled for 9am-noon Monday December 15, room to be announced)</td>
<td>35%</td>
<td>35%</td>
</tr>
</tbody>
</table>

- For CDE fellows, scores on the **CDE orientation** exam and homework on microeconomics, regression, and writing together account for 10% of the Econ 504 grade.

- **Writing Assignment for Undergraduates.** In lieu of the CDE orientation, undergraduates will be required to submit a writing assignment of approximately 10 double-spaced pages,
due Monday, December 8th at 4:00pm. It will count for 10% of the final grade. (For CDE fellows, that 10% of the grade will come from the CDE orientation instead). Further information on the writing assignment will be provided later in the term.

- There will also be **approximately five homework assignments** which together count for 15 percent of your grade. Tentative due dates for these assignments are listed on the schedule below, but may be adjusted as the semester progresses. Homework assignments will be graded by the teaching assistant for the class (Sam Lewis). Working on the homework assignments in groups is encouraged. However, if you work out an answer as part of a study group, be sure you understand exactly how to arrive at the answer. You must write up the answer to the problem completely on your own, in your own words, and of course you must each turn in your own individual homework. Turning in an identical homework assignment as a classmate is a violation of the honor code. Late homework assignments will not be accepted, because I will be making the answers available shortly after they are handed in. I will drop the lowest homework grade from your grade calculation, which should take care of legitimate excuses. Unless otherwise specified, you may hand-write your homework if you want, it is not necessary to type it.

- **Class participation** counts for 5 percent of your grade. You should attend class regularly, come to class having done the assigned readings, and be prepared to discuss the questions about the reading that I pose to you in advance by e-mail. I reserve the right to call on people to provide their thoughts on the e-mailed discussion questions. **It is also important that you not be distracted by electronic equipment. Students may use a computer to take notes if they like, but must use the computer for that purpose only. Smart phones and other electronic devices must be turned off and stowed.**

- The **midterm exam** counts for 35 percent of your grade. The **midterm is scheduled for Wednesday October 15th from 10:00am to 12:30pm** in the CDE classroom. In the event of schedule conflict, undergraduates are welcome to re-schedule for an alternate date and time – please talk with me if that is the case.

- The **final exam** counts for 35 percent of your grade, and will take place during the normal final exam period. Date, time, and location will be announced later.

**Teaching Assistant**
Sam Lewis <swl1@williams.edu> is the teaching assistant for this course. He is a senior at Williams College who excelled in this course last year. Sam will grade most of your homework, and will run an optional review session before each homework is due. In these review sessions, you may ask Sam to explain general topics that we covered in class and that are related to the homework that you need to do, but do not ask him to solve the homework problems for you -- that’s your job. In addition, the CDE teaching assistants (Sultan Toure and Mohsina Atiq) are available by appointment to provide extra help.
Course schedule and reading assignments

The schedule below lists the topics and reading assignments for Economics 504. Some readings come from the textbook for the course: *Public Finance and Public Policy* by Jonathan Gruber. These readings are listed as "Gruber." I have provided page references for the 1st, 2nd, 3rd, and 4th editions. Other readings will be made available in printed reading packets, and in electronic format on the class “Glow” web page. You should do the assigned reading before the date that we cover the topic in class, and come to class prepared to discuss the questions about the readings that I will pose to you by e-mail.

1. **Friday, September 5.**
   **Introduction; Efficiency, Equity, and Social Welfare, Part I**
   - Gruber, Ch. 1, Section 1.1 "The Four Questions of Public Finance" (pp. 3-10 in 3rd. and 4th eds., pp. 3-11 in 2nd ed., pp. 2-9 in 1st ed.)
   - Gruber, Ch. 2, Section 2.3 "Equilibrium and Social Welfare" (pp. pp. 43-55 in 3rd and 4th eds., pp. 43-55 in 2nd ed., pp. 41-52 in 1st ed.)

2. **Monday, September 8.**
   **Efficiency, Equity, and Social Welfare, Part II**
   - Bakija, Jon. 2014. “Social Welfare, Redistribution, and the Tradeoff between Efficiency and Equity, with Developing Country Applications.” Parts I and II (pp. 1-18)

3. **Wednesday, September 10**
   **Efficiency, Equity, and Social Welfare, Part III**
   - Bakija, Jon. 2014. “Social Welfare, Redistribution, and the Tradeoff between Efficiency and Equity, with Developing Country Applications.” Part III (pp. 18-27)

4. **Monday, September 15.**
   **Empirical Tools of Public Economics**
   - Gruber, Ch. 3, "Empirical Tools of Public Finance" (including appendix)
5. **Wednesday, September 17.**  
**Externalities and Public Goods I**

**Friday September 19: Homework 1 due in CDE main office by 4:00pm.**

6. **Monday, September 22.**  
**Externalities and Public Goods II**
- Bakija, Jon. 2012. “Trust as a Public Good or Externality Problem”

7. **Wednesday, September 24.**  
**Imperfect Competition; What Kind of Good is a Road?**

8. **Monday, September 29.**  
**Insurance and Asymmetric Information**

**Monday September 29: Homework 2 due in class.**
9. **Wednesday, October 1.**

**Insurance (or Lack Thereof) in Developing Countries**


10. **Monday, October 6.**

**Credit Market Failure due to Asymmetric Information**


11. **Wednesday, October 8.**

**Behavioral Economics and Public Policy**


**Wednesday October 8: Homework 3 due in class.**

*No class on Monday, October 13 (Fall Reading Period)*

**Wednesday, October 15, 10:00AM-12:30PM: MIDTERM EXAM, CDE Classroom**
12. Monday, October 20

Health Care Policy in Developing Countries


13. Wednesday, October 22

Transfers to the Poor I: Targeted vs. Universal Benefits, and Cash vs. In-Kind Benefits


14. Monday, October 27

Transfers to the Poor II: Conditional and Unconditional Cash Transfers – Theory and Evidence

15. Wednesday, October 29.
Political Economy I

Political Economy II

17. Wednesday, November 5.
Fiscal Federalism and Decentralization
- Gruber, "Optimal Fiscal Federalism" Ch. 10, Section 10.2 only (pp. 267-275 in 3rd ed., pp. 262-270 in 2nd ed., pp. 251-258 in 1st ed.).

Wednesday November 5: Homework 4 due in class.

18. Monday, November 10
Making Government Work Better I: Addressing Corruption
19. Wednesday, November 12
Making Government Work Better II: Addressing Absence and Effort

20. Monday, November 17
Education I
• Bakija, Jon. 2012. “Unemployment Rate by Highest Level of Educational Attainment,” based on data from World Bank, World Development Indicators 2011.

21. Wednesday, November 19
Education II
• Pritchett, Lant. 2001. "Where Has All the Education Gone?" World Bank Economic Review. 15, no. 3. [Excerpts from pp. 367, 382-384, and 386-387.]

Friday November 21: Homework 5 due in CDE main office.
Government vs. Private Ownership and Production: Introduction


Wednesday November 26: No class (Thanksgiving Break)

Government vs. Private Ownership and Production: Evidence, Part 1 – School Vouchers


24. Wednesday, December 3.
Government vs. Private Ownership and Production: Evidence, Part II – Privatization of State Owned Enterprises