Economics 205: Public Economics
Fall 2006

Professor Brainerd
Stocking 5 (107 Southworth St.)
x2408
Elizabeth.Brainerd@williams.edu

Office hours:
Mondays 1:30 - 3:30 pm
Tuesdays 3:00 - 4:00 pm
and by appointment

Course description: This course examines the role of the government in a market economy. Three broad issues are considered: when is government intervention in the economy appropriate? What is the most effective form of intervention? What effects do government policies have on individual incentives? We will focus on microeconomic issues such as public goods, externalities and the incidence of taxes, and will evaluate government policies and programs such as social security, health care and public assistance for the poor. We will also discuss rationales and strategies for reforming the U.S. tax system.

Prerequisite: Economics 110

Course materials: The primary text for the course is Jonathan Gruber, Public Finance and Public Policy, which is available from the book store. Students should also pick up a copy of the Econ 205 course packet from Seeley House, first floor. Students are expected to read the assigned articles from the reading packet and be prepared to discuss them on the days indicated in the syllabus. Material from the reading packet is fair game on exams and will be indispensable for writing policy memos.

Course requirements: We will meet on Mondays and Wednesday each week, with Fridays reserved for make-up class(es) if necessary. Four problem sets will be assigned during the semester, of which the best three will count towards your final grade. Each student will also write three policy memos as described below. A tentative schedule of due dates for all written work is given on the next page. Your course grade will be determined according to the following weighting scheme:

- Class attendance and participation: 10%
- Problem sets (3): 15%
- Policy memos (3): 15%
- Midterm exam (Wednesday, Oct. 25): 25%
- Final exam (self-scheduled): 35%

What are policy memos? Policy memos are short papers on a controversial topic of current interest. This year the topics are as follows: (1) What is the best policy to address the problem of global warming? (2) Should local school districts adopt voucher-based school choice programs? (3) Should Social Security be privatized? (4) How should the U.S. reduce the number of people without health insurance? and (5) Should the U.S. tax system be reformed? Students will choose three of these topics to write on. Further details on these assignments will be given during the semester.
Policies regarding written assignments: Students are encouraged to work with other students on problem sets. However, each student must turn in his or her own problem set; it is not to be copied from someone else’s work. Students are also encouraged to discuss the policy memos with one another. Again, the work must be written and submitted by each student individually.

Late policy memos and problem sets will not be accepted. However, only the best three problem set grades will be counted in determining your final grade. Thus, you can miss one problem set for any reason without any penalty.

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Date distributed:</th>
<th>Date due:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy memo 1</td>
<td>Monday, Sept. 11</td>
<td>Monday, Sept. 18</td>
</tr>
<tr>
<td>(global warming)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Problem set 1</td>
<td>Monday, Sept. 18</td>
<td>Monday, Sept. 25</td>
</tr>
<tr>
<td>Policy memo 2</td>
<td>Monday, Sept. 25</td>
<td>Monday, Oct. 2</td>
</tr>
<tr>
<td>(School vouchers)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Social security)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Problem set 2</td>
<td>Wed., Oct. 4</td>
<td>Monday,Oct. 16</td>
</tr>
<tr>
<td>Policy memo 4</td>
<td>Monday, Oct. 23</td>
<td>Monday, Oct. 30</td>
</tr>
<tr>
<td>(health insurance)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Problem set 3</td>
<td>Monday, Nov. 6</td>
<td>Monday, Nov. 13</td>
</tr>
<tr>
<td>Problem set 4</td>
<td>Monday, Nov. 20</td>
<td>Monday, Nov. 27</td>
</tr>
<tr>
<td>Policy memo 5</td>
<td>Monday, Nov. 27</td>
<td>Monday, Dec. 4</td>
</tr>
<tr>
<td>(Tax reform)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
I. Introduction to public economics (Sept. 8, Sept. 11)

A. The role of government in a market economy

Gruber, Ch. 1
Milton Friedman, Capitalism and Freedom, Ch. 2: “The Role of Government in a Free Society”
Paul Krugman, “The Lost Fig Leaf: Why the Conservative Revolution Failed,” Slate, Sept. 27, 1996

B. Tools for public policy analysis: Econ 110 review

Gruber, Ch. 2 and 4

II. Government and the allocation of resources

A. Externalities and public policy (Sept. 13, Sept. 18)

Gruber, Ch. 5 and 6

B. Public goods in theory and practice (Sept. 20)

Gruber, Ch. 7

III. Evaluating government expenditure programs

A. Economics of education (Sept. 25, Sept. 27, Oct. 2)

Gruber, Ch. 3 and 11

B. **Social security** (Oct. 4, Oct. 11)

Gruber, Ch. 12 and 13

C. **Economics of health and health care** (Oct. 16, Oct. 18, Oct. 23)

Gruber, Ch. 15 and 16

**Midterm Exam Wednesday, October 25**

D. **Public assistance programs for the poor** (Oct. 30, Nov. 1)

Gruber, Ch. 17

**IV. Evaluating the revenue side: the economics of taxation**

A. **Overview of the U.S. tax system** (Nov. 6)

Gruber, Ch. 18
B. Incidence, fairness and efficiency of taxation (Nov. 8, Nov. 13)

Gruber, Ch. 19 and 20

C. Personal taxation and behavior (Nov. 15, Nov. 20)

Gruber, Ch. 21 and 22

D. Taxes on consumption and wealth (Nov. 27)

Gruber, Ch. 23

E. Reforming the U.S. tax system (Nov. 29, Dec. 4)

Gruber, Ch. 25

V. Catch-up and review (Dec. 6)