

Economics 205: Public Economics Fall 2006

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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.*

Problem Set and Policy Memo Schedule		
<u>Assignment</u>	<u>Date distributed:</u>	<u>Date due:</u>
Policy memo 1 (global warming)	Monday, Sept. 11	Monday, Sept. 18
Problem set 1	Monday, Sept. 18	Monday, Sept. 25
Policy memo 2 (School vouchers)	Monday, Sept. 25	Monday, Oct. 2
Policy memo 3 (Social security)	Wed., Oct. 4	Wed., Oct. 11
Problem set 2	Wed., Oct. 4	Monday, Oct. 16
Policy memo 4 (health insurance)	Monday, Oct. 23	Monday, Oct. 30
Problem set 3	Monday, Nov. 6	Monday, Nov. 13
Problem set 4	Monday, Nov. 20	Monday, Nov. 27
Policy memo 5 (Tax reform)	Monday, Nov. 27	Monday, Dec. 4

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

Martin and Kathleen Feldstein, “A Better Way to Fight Pollution,” *The Boston Globe*, July 22, 1997

Michael J. Sandel, “It’s Immoral to Buy the Right to Pollute,” *New York Times*, December 15, 1997

Gary S. Becker, “What Price Pollution? Leave That to a Global Market,” *Business Week*, October 18, 1999

Warwick J. McKibbin and Peter J. Wilcoxon, “The Role of Economics in Climate Change Policy,” *Journal of Economic Perspectives*, Spring 2002

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

Gruber, Ch. 7

Rebecca Quick, “Web Sites Discover Members Aren’t Good at Keeping Secrets,” *Wall Street Journal*, Feb. 21, 1997

Robert H. Frank, “State Governments Overreach in Taking on Problems Best Solved at the National Level,” *New York Times*, April 13, 2006

III. Evaluating government expenditure programs

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

Gruber, Ch. 3 and 11

Helen F. Ladd, “School Vouchers: A Critical View,” *Journal of Economic Perspectives*, Fall 2002

Derek Neal, "How Vouchers Could Change the Market for Education," *Journal of Economic Perspectives*, Fall 2002

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

Gruber, Ch. 12 and 13

Martin Feldstein, "Rethinking Social Insurance," *American Economic Review*, March 2005 (skip pp. 13-15 on unemployment insurance)

Jeffrey B. Liebman, "Reforming Social Security," *Harvard Magazine*, March 2005

Edward P. Lazear, "The Virtues of Personal Accounts for Social Security," *The Economists' Voice*, 2005

Joseph Stiglitz, "Securing Social Security for the Future," *The Economists' Voice*, 2005

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

Gruber, Ch. 15 and 16

James P. Weaver, "The Best Care Other People's Money Can Buy," *Wall Street Journal*, November 19, 1992

Elena Cherney, "Who Gets Health Care? Rationing in an Age of Rising Costs," *Wall Street Journal*, November 12, 2003

Steven A. Schroeder, "Prospects for Expanding Health Insurance Coverage," *New England Journal of Medicine*, March 15, 2001

Martin Feldstein, "Balancing the Goals of Health Care Provision," NBER Working Paper 12279, May 2006

MIDTERM EXAM WEDNESDAY, OCTOBER 25

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

Gruber, Ch. 17

Erik Eckholm, "A Welfare Law Milestone Finds Many Left Behind," *New York Times*, August 22, 2006

Rebecca M. Blank, "Was Welfare Reform Successful?" *The Economists' Voice*, March 2006

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

“The Non-Taxpaying Class,” *Wall Street Journal*, November 20, 2002

E.J. Dionne, “Low-Income Taxpayers: New Meat for the Right,” *Washington Post*, November 26, 2002

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

Gruber, Ch. 21 and 22

Iver Peterson, “Roll-Your-Owns Help Avoid Taxes,” *New York Times*, October 14, 2002

Viginia Postrel, “The U.S. Tax System is Discouraging Married Women from Working,” *New York Times*, November 2, 2000

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

Gruber, Ch. 23

Joel Slemrod and Jon Bakija, Ch. 7 in *Taxing Ourselves: A Citizen’s Guide to the Debate over Taxes* (MIT Press, 2004)

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

Gruber, Ch. 25

Edward P. Lazear and James M. Poterba, “Reforming Taxes to Promote Economic Growth,” *The Economists’ Voice*, December 2005

Michael J. Graetz, “Tax Reform: Time for a Plan C?” *The Economists’ Voice*, December 2005

Joel Slemrod and Jon Bakija, Ch. 6 in *Taxing Ourselves: A Citizen’s Guide to the Debate over Taxes* (MIT Press, 2004)

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