Spring 2002

Econ 344: PUBLIC FINANCE

Dr. Hongli Feng
Class hours: T, Th 9:30-10:45
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Office hrs: M, W, F (9-10)
Office: 560D Heady Hall
Phone: 294-6307

Prerequisites
Econ 101 (or any other introductory microeconomic course).

Required Textbook (on reserve)

Other Books on Reserve
Public Finance and the American Economy, Addison-Wesley, by Neil Bruce.


Grading
Class participation 5%
Five Problem Sets 15% (3% each)
Midterm 1 25%
Midterm 2 25%
Final Exam 30%

Makeup Exams
No makeup exams will be given for the midterms.
If you only take one midterm due to illness or choice, the grading policy is:
Class participation 5%
Five Problem Sets 15% (3% each)
Midterm 35%
Final Exam 45%

If no midterm is taken, the grading policy is:
Class participation 5%
Five Problem Sets 15% (3% each)
Final Exam 80%
The Final Exam
No explicit question will be asked about the topics covered by midterms. However, students are assumed to know the material covered throughout the class.

Late Problem Sets
No late problem set will be accepted unless with written excuses from doctors or other legitimate sources.

Learning Disabilities
If you have learning disabilities, please come and talk to me as soon as possible so that we can make special arrangement.

Course Outline and Reading Assignments
(to be updated as the course proceeds)

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<tr>
<th>Topics</th>
<th>Reading Assignment</th>
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<tr>
<td><strong>The Economic Basics for Government Activities: (Week 1-5)</strong></td>
<td>Chap. 1-3</td>
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<tr>
<td>□ Introduction to Public Finance</td>
<td>Chap. 4</td>
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<tr>
<td>• Individuals and governments</td>
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<td>• Basics facts of current government spending and financing</td>
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<td>• Analyzing government policy</td>
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<td>• Efficiency and equity</td>
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<td>□ Public goods</td>
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<td>• Public goods</td>
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<td>• Public goods and publicly provided goods</td>
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<td>• Efficient output of public goods</td>
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<td>• Market failure with public goods</td>
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<td>• Financing of publicly provided goods</td>
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<td>• Examples of publicly provided goods (defense, education, federal highway system)</td>
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<tr>
<td>□ Externalities</td>
<td>Chap. 5</td>
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<tr>
<td>• Classifications of externalities</td>
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<td>• Externalities and market efficiency</td>
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<td>• Remedies for externalities</td>
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<td>• Coase theorem</td>
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<td>• Taxes, subsidies and tradable permits</td>
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<td>□ Multi-government Public Finance</td>
<td>Chap. 20</td>
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<td>• Local and national governments</td>
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<td>• Fiscal federalism</td>
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</table>
- Share of responsibilities
- Spending and financing of local governments
- Advantage and disadvantage of a decentralized system
- The Tiebout Model
- Intergovernmental grants
- Flypaper effect

- Political Economy
  - Direct democracy (Unanimity rules, majority voting rules, Logrolling)
  - Arrow’s Impossibility Theorem
  - The median voter
  - Representative democracy (Elected politicians, public employees, and special interests)
  - Explanation for government growth

Review 1, Midterm 1 (Week 6)
Midterm 1: Feb 21, Thr, 9:30-10:45 am

Government Expenditures and U.S. Policy (Week 7-11)
Week 10: March 17-23, Spring Break!

- Income Redistribution
- Expenditure Programs for the Poor
- Social security and unemployment insurance,
- Health care,
- Cost-Benefit Analysis;

Review 2, Midterm 2 (Week 12)
Midterm 2: April 4, Thr, 9:30-10:45 am

Financing Government Expenditures and U.S. Revenue System (Week 13-16)

- Taxation, efficiency, and income distribution,
- Budget balance and government debt
- The effect of taxes on economic behavior,
- Personal income tax
- Corporation tax
- Taxes on Consumption and Wealth

Final Review: May 2, Thr, 9:30-10:45 am
Finals (Week 17, May 6-10), Good Luck!