The purpose of this class is to study the role of government in a market system, and to establish criteria and develop tools with which to evaluate government policies. In so doing, we will explore the rationale and need for government intervention and analyze the effects of both proposed and existing policies, using chiefly microeconomic theory. It is therefore hoped that by the end of the semester, you will have the tools and institutional knowledge necessary to analyze and evaluate both current and proposed policies in arriving at your own conclusions.

In pursuit of this overall objective, this course entails several requirements. Foremost, it is strongly recommended that the student have an understanding of intermediate-level microeconomic theory or be currently enrolled in Economics 605, as much of the policy analysis in this class uses microeconomic theory. The other requirements are listed below.

Readings

The required text for this course is Public Finance by Harvey S. Rosen, fourth edition, and is available only from Durham Book Exchange. The other required readings listed in the course outline are available in a coursepack to be purchased from UNH Printing Services. Finally, as many of the programs and topics we discuss are current in nature, additional required readings may be assigned throughout the semester.

It is a waste of precious class time for me to outline the specific details of each program considered, especially when the textbook does an excellent job of doing so. I therefore expect you to have read the required readings before the topic is covered in class and, in particular, to be familiar with the program we will be discussing. This will allow us to get right to the analysis and evaluation of the program.

Exams and Homework Assignments

There will be two exams, each worth 20% of your grade, and a final exam that makes up 30% of your grade. No make-up exams will be given. If you must miss an exam, notify me before the test.

Ten percent of your grade will come from three to five homework assignments. Homework assignments will be due at the beginning of class and late homework assignments will not be graded for credit. You may improve your homework grade by doing extra assignments. These extra assignments consist of finding a current (dated during the time of the semester) popular press article on a relevant topic, and then summarizing the article and using economic analysis to evaluate it. Each article is worth a maximum of 10 points. You may receive a maximum of 40 points in this way – most homework assignments are worth 40 to 60 points. The extra points will be added to your total homework score, even if that means a homework grade exceeding 100%.

Group Projects/Debates

There will also be a group project in which you are required to write a position paper/rebuttal on a
particular program and then, class size permitting, debate in class. In particular, two groups of 3 to 4 students each will be assigned to a particular program. The first group will choose its position on a specific program – i.e., whether to reform it and how, or leave it as it is. The other group will formulate a rebuttal to the first group's position (or play 'devil's advocate'). Both the position paper and rebuttal must use economic analysis in making and defending its points. The first group must notify me and the other group of their basic position at least two weeks before the debate and turn in two copies of the paper (one for me, one for the rebuttal group) at least one week before the debate. The rebuttal group must turn in its paper the day of the debate. Both papers must be machine-generated and should be 8 to 12 pages long, not including pages used for graphs and the bibliography. In general, the position paper is expected to be longer than the rebuttal because the latter is more difficult and can refer to the position paper in its discussion. The position paper must contain at least three academic journal references and three popular press references. The rebuttal must contain at least two DIFFERENT references of each type. The appendix to Chapter 1 in Rosen provides a list of potential academic journals.

Groups, topics and dates for the debate will be chosen within the next two to three weeks. I am expecting to have four such debates. The group projects are worth 15% of your total grade – 10% for the written paper and 5% for the presentation in class. The grade will be assigned equally among group members unless the group recommends doing otherwise. Specifically, each group member will make a recommendation to me as to how the grades should be assigned among the other members of the group. Based on these recommendations, I will judge whether to assign the grade equally or not. This is to prevent free-riding behavior, a common pitfall as we economists know!

Class Attendance and Participation

A course such as this is improved immensely by class participation. You are therefore expected to not only attend class, but also actively participate in class discussions. Arriving late or leaving early is disruptive to the class and is very inconsiderate to both me and your fellow classmates; therefore, such behavior will not be tolerated. If a special circumstance dictates that you must leave early, please check with me before class.

To enhance class discussion and aid in my learning your names, I will construct a seating chart on the third day of class, January 24th, so please choose a seat with which you will be comfortable throughout the semester on that day. To further encourage class participation, I will assign each of you a class participation grade that accounts for the remaining 5% of your total grade.

Outline of the Course

The course outline and readings are listed on the following page, along with the approximate date(s) on which each topic will be covered. Readings are listed roughly in the order that they will be discussed in class and required readings that are not from Rosen are in the coursepack. Please note that many of these additional readings are editorials and should be read as such. Starred (*) readings are optional, may be briefly discussed in class and are on reserve in the library. They may also be helpful to those debating the topic.

Course Outline and Reading List

I. Introduction to Issues and Tools used in Public Finance
   A. Basic Concepts, Criteria, and Facts (January 17)
      --Chs. 1 and 2
B. Use of Microeconomic Theory and Other Tools (January 22)
   --Appendix (pp.550-573), Appendix 4A (pp.57-58), and Ch. 3

II. When the Market Fails...
   A. Externalities (January 22-29)
      -- Ch. 6
      - "A Street Problem with a Coasean Solution," Bethune, The Margin, Spring 1993
      - "Higher 'Sin' Taxes: A Low Blow to the Poor," Gary S. Becker, and two columns in 'Economic Trends,' both in BW, June 5, 1989
      - "Clean Air Act Boosts Costs, Markets," The Margin, Fall 1991
      - "How Much is a Sea Otter Worth?" BW, August 21, 1989

   B. Provision of Public Goods (January 29-February 5)
      -- Ch. 5 and pp. 512-525
      - "Packaging Special Interest as Public Interest," Lee and Sexton, The Margin, Spring 1993
      - "Crumbling Roads and Bridges: Their Heavy Toll on the Economy," BW, August 7, 1989
      - "Economics of Road Pricing," Thurow, Boston Globe, February 28, 1995

   C. Other Types of Market Failures (February 5)
      --pp. 51-55, 196-97

III. When the Government Fails... (February 5-7)
      --Ch. 7

IV. Cost/Benefit Analysis (February 7-14)
      --Ch. 12
      - "Putting a Price Tag on Life," Newsweek, January 11, 1988
      - Hyman, "The 55 mph Speed Limit: Results of a Cost/benefit Analysis," p. 277
      - "Death by Regulation," BG, July 24, 1995

--------Exam #1 on February 19th--------

IV. Evaluation of Entitlement Programs
   A. Social Insurance Programs
      1. Unemployment Insurance (February 21)
         --pp. 213-216
         - "Jobless Relief Costs Curbed, but Incentives Still Need Work," Ferguson, WSI, March 19, 1991

      2. Social Security (February 21-28)
         --Ch. 10
         - "Fixing Social Security," NW, May 7, 1990
VII. Issues and Concepts of Taxation (March 4-6)
   - "The Crisis in Health Insurance, Part 2," Consumer Reports, September 1990
   - "Savings are Short-term in Medicare's Shift to HMOs," BG, April 3, 1995
   - "Reforming the Health Care System: Rationing versus Universal Health Insurance," in Readings, Issues...

B. Income Redistribution Programs and Aid to the Poor
   1. Background Information (March 18-20)
      - Ch. 8
      - "The Truth about the Rich and the Poor," Fortune, September 21, 1992
      - "What Happened to the American Dream?" BW, August 19, 1991
      - "One Fifth of the Nation's Children: Why are They Poor?" Bane and Ellwood, Science, September 1990
      - "The Origins of the Underclass," Nicholas Lemann, The Atlantic Monthly, June 1986 [I strongly recommend this article.]

   2. Income Redistribution Programs (March 20-April 1)
      - Ch. 9
      - Hyman, pp. 236-42; pp. 214-15
      - "States Replacing Food Stamps with Cash to be Spent at Will," Times Courier, (my hometown newspaper!), March 8, 1994
      - "Incentives and the U.S. Welfare System," The Margin, Spring 1993
      - "New Welfare Bill, New Welfare Cheats," WSJ, October 13, 1988
      - "Pulling Families out of Welfare is Proving to be an Elusive Goal," NYTimes, April 2, 1990
      - "SSI Fosters Disabling Dependency," WSJ, January 20, 1995
      - "Help the Working Poor," Robert J. Samuelson NW, May 1, 1989
      - Three articles about Welfare and the Poor in Readings, Issues..., pp. 61-92

       Test #2 on April 3rd

V. Issues and Concepts of Taxation (April 8-10)
   - "If It Smells Like a Tax and Bites Like a Tax..." Gary S. Becker, BW, August 22, 1988 and a rebuttal in the September 26th edition

A. Incidence
   - Ch. 13 (except pp. 287-299, which are optional)

B. Excess Burden
   - Selective reading of Ch. 14 and Appendix A to the chapter
C. Efficiency and Equity
   --Ch. 15 (pp. 335-343 are optional)

VI. Analysis of the US Tax System
   A. The Personal Income Tax  (April 15-22)
      --Chs. 16 and 17
      -"Ditch the Capital-Gains Tax Once and For All," Roberts, BW, April 3, 1989
      -"A Defense of the Mortgage Interest Deduction," WSI, late 1989
      -"Tax Changes may Spawn New Baby Boom," The Margin, Fall 1991
      -"Pouncing on the Working Poor," BG, October 3, 1995
      -"Another Round: Talk of Tax Reform is Gaining Momentum, but Plans Vary Widely," WSI, January 31, 1995
      -"One Tax Fits All," NW, January 15, 1996
      -"Good Taxations," BG, Fall 1995
      -"A Capitol Miracle," NW, August 25, 1986   -- Discusses in greater detail TRA86

   B. Corporate Income Tax  (April 24)
      --Selective reading of Ch. 18

   C. Other Taxes and an Evaluation of Overall Tax System  (April 29)
      --pp. 525-535 and selective reading of Ch. 20
      -"State and Local Tax Systems Called Unfair," WSI, April 23, 1991
      -"Table 14-1, Musgrave and Musgrave, Public Finance in Theory and Practice, 5th edition

   D. Deficit Finance and Its Effects  (May 1- 6)
      --Ch. 19
      -"How Do We Measure the Deficit? Let Us Count the Ways," BW, February 18, 1991
      -"Two articles about the deficit, BG, January 29, 1989
      -"There Must Be Fifty Ways to Cut the Deficit," The Margin, Sept/Oct 1990

Final Exam on Friday, May 10th at 1:00 pm