This course is the second in a two-part sequence that explores the basic issues of public economics. The first course (Econ 842) introduces students to analyses of taxation, with a special focus on corporate behavior, as well as the issues of public goods, externalities, regulation and cost-benefit analysis. In general, the first course spends more time on the fundamental justification for and role of a public sector, whereas the second course emphasizes the impact and evaluation of expenditure and tax policies. While it is ideal to take Economics 842 first, it is not a prerequisite for this course.

A main objective of the course is for the student to thoroughly understand the basic issues of public economics and to be able to apply this knowledge in evaluating a variety of policies. This course will emphasize the use of economic theory in predicting the economic effects of a policy and methods of analysis for estimating the effects empirically. After a brief overview and introduction, the course can be characterized as having three distinct components, 1) expenditure programs, 2) tax policies and 3) issues of state/local public sectors. Specific expenditure policies analyzed include social insurance programs such as Medicare and Social Security, and income/inkind transfer programs such as Welfare/TANF and Medicaid. The tax policy part of the course will emphasize different forms of individual taxation, especially the personal income tax. (Recall that corporate taxation is covered in Econ 842.) The final component considers a variety of issues associated with a multi-level system of government, such as local property taxes, locally provided goods (e.g., education) and inter-jurisdictional policy competition and mobility of factors and voters. The course requirements are described below.

Readings

A good reference book or starting point for most of these topics is *Public Finance* by Harvey S. Rosen, sixth edition. This book is not, however, strictly required, but is strongly recommended, especially for those with no previous background in public economics. It will provide the background for the assigned readings that will come mainly from academic journal articles. The student is expected to read the assigned reading before it is discussed in class. The appropriate reading from Rosen is listed first within each topic (listed as Rosen).

The other main reference books are *Handbook of Public Economics, Volumes 1-4*, edited by Alan J. Auerbach and Martin Feldstein. Appropriate readings from these volumes
(listed as Handbook) frequently follow Rosen on the reading list because of their survey/overview nature. (Other survey articles are likewise grouped with Rosen and the Handbook.) Both Rosen and the Handbooks are on reserve at the library; I have also ordered a limited number of copies of Rosen at the Durham Book Exchange.

The rest of the readings come mainly from academic journal articles and working papers. The list provided below is too extensive to be covered in one semester; rather it is designed to give you both an overview of the topic and also papers that are particularly illustrative or showing a new direction of research should you choose to do further research in an area. Readings that are *required* or *strongly recommended* will be identified as the course progresses. Where possible, the paper has been downloaded in pdf format and will be available through email or Blackboard; those not available in this manner are noted. Finally, at the bottom of each topic I have listed papers by UNH faculty (with the name underlined) as a way for you to see which of our faculty have research in areas that you find of particular interest.

**Important:** please read over this list of topics the first week of class and let me know if there are topics – or specific papers -- in which you are particularly interested. I will keep you and your classmates’ preferences in mind as I narrow the list of papers we actually discuss in class.

**Grading**

There will be two exams in this course, one midterm exam worth 20% and a comprehensive final exam worth 25% of your final grade. There will also be several assignments (described below), which are due at the beginning of class and late assignments will not be graded for credit. These assignments account for 20% of your grade. You will also be required to write a research paper (described below), which you will (1) present in class and (2) use to write a potential final exam question that you will submit to your classmates and me before your presentation. The research paper is worth 20% of your grade, and your presentation and final exam question comprise 10%. The formal breakdown is

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<th>Assignment</th>
<th>Percentage</th>
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<tr>
<td>Assignments</td>
<td>20%</td>
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<tr>
<td>Midterm exam</td>
<td>20%</td>
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<tr>
<td>Research paper</td>
<td>20%</td>
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<tr>
<td>Presentation and final exam question based on</td>
<td>10%</td>
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<tr>
<td>paper</td>
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<tr>
<td>Class Participation</td>
<td>5%</td>
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<tr>
<td>Final Exam</td>
<td>25%</td>
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**Assignments**

There will be several homework assignments. Typically, these assignments will be writing assignments based on one or more key articles being covered that week and may
be the ‘peer-responded written discussion’ (PRWD) assignments pioneered by Professor Mohr in Econ 842. Here’s how the PRWD assignments work:

1) I assign you to read one or more articles for the assignment
2) You write a two-page (minimum) discussion of the readings which you distribute to your classmates (or a subset of, depending on class size) and me by the given due date. This discussion should be more than a simple summary and your classmates are your primary audience – so keep in mind that they have read the article(s) also. You may critique the article (similar to the seminar critiques) or discuss possible extensions to the research, even using these assignments as a way of identifying possible topics for your dissertation or research paper. You can also identify aspects that you thought were confusing and ask your peers for help.
3) Your classmates will do the same, distributing copies of their discussions to YOU (and me).
4) You will write a one-page (minimum) response to each of your classmates’ discussion papers, which you will again distribute to both me and your classmates by the due date (typically a few days after the first date). Use this as an opportunity to help your classmates and also expand your understanding. Contrast your opinion with theirs, clarify their points of confusion, and make suggestions about future research or gaps in the literature.
5) I will keep your discussions and responses to be graded as a portfolio and in combination with other homework assignments given.

Other homework assignments will be more typical (e.g., answering questions about a theoretical problem or an assigned article), and may include writing a referee report on an unpublished manuscript.

Research Paper

You are also required to write a research paper that is essentially a proposal for a full-blown paper that could eventually be a dissertation topic or essay, or an academic journal article. This proposal/term paper should identify a gap in our current understanding of a specific issue in public economics and suggest a method for closing that gap. As such, your paper must include a review of the literature, a clear identification of the gap in the literature which you propose to address, and your strategy, including theoretical exercises and/or empirical analyses and datasets, for closing this gap. For example, if the gap is mainly in the theoretical formulation of the issue, then you must explain how you would extend/adapt/change the theoretical model to close the gap. You must also explain the benefits of doing so and, if feasible, attempt to do so. If the gap is mainly in the empirical investigation of the issue, then you must locate an existing dataset(s) and explain how you would use it (them) to close the gap. And, depending upon how ambitious your proposed empirical investigation is, I may ask you to provide some
preliminary estimates. (You cannot propose collecting new primary data unless you check with me first!)

I will read any number of drafts (as long as successive ones address earlier comments and you provide me with the old, marked-up draft) and promise to provide comments within a week. At a minimum, however, you must provide

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<th>Assignment</th>
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<tr>
<td>Brief proposal (1-2 pages) of topic</td>
<td>September 30</td>
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<tr>
<td>Literature review (5-6 pages minimum)</td>
<td>October 28 (subject to change depending on midterm exam)</td>
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<tr>
<td>Draft for presentation and final exam question(s)</td>
<td>December 8</td>
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<tr>
<td>In class presentation</td>
<td>Week of December 8</td>
</tr>
<tr>
<td>Final paper</td>
<td>December 12</td>
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**Class Participation and “Brainstorming”**

You are expected to have read the assigned readings before class and be prepared to actively participate in class discussions. I’d also like to devote the first 5-10 minutes of class time for ‘brainstorming’ sessions in which students may air ideas for paper topics, data sources, and ask for feedback on any results they have uncovered.

**Reading List**

**I. Introduction and Overview**

**A. Issues of, Reasons for and Growth/Change in the Public Sector**

*Rosen*, Chs. 1, 4 and 5

*Handbook, Vol. 4, Ch. 31*, “Health Care and the Public Sector,” D.M. Cutler


**B. Tools of Analysis – Empirical and Theoretical**

*Rosen*, Chs. 2, 3 (plus appendix), pp. 253-71, Ch. 13
II. Social Insurance Programs – Justification and Evaluation


A. Unemployment Insurance/Workers’ Compensation – Labor Income Risks

Rosen, pp. 178-181, 195-98


B. Social Security—Longevity Risks

Rosen, pp. 181-95


**For an interesting give-and-take of a key error found by research replicating an early social security and private savings study see “Contradictions and Confirmations,” JPE, June 1982, 90(3), pp. 606-46.

Gruber, J. and D. Wise, “Social Security Programs and Retirement Around the World: Micro Estimation,” NBER Working Paper #9407 – Introduction and Summary. In addition to this paper, the volume consists of a set of papers, one for each country.


C. Medicare—Longevity and Health Risks

*Rosen*, Ch. 10

*Handbook, Vol. 4, Ch. 31*, pp. 2230-31, “Health Care and the Public Sector,” D.M. Cutler


III. Income Redistribution Programs

*Rosen*, Ch. 7


A. Inkind Transfer Programs

*Rosen*, pp. 168-73


1. Food Stamp & Nutrition Programs


2. Medicaid & Health Care Programs for the Poor

*Handbook, Vol. 4, Ch. 31*, pp. 2217-2230, “Health Care and the Public Sector,” D.M. Cutler


*QJE*, 1996, 111, pp. 431-66, “Health Insurance Eligibility, Utilization of Medical Care, and Child Health,” J. Currie and J. Gruber


*Neat follow-up to this paper is Ham, J.C. and L. D. Shore-Sheppard, "Did Expanding Medicaid Affect Welfare Participation?" NBER Working Paper No. W9803, June 2003


3. Public Housing


B. Income Transfer Programs

*Rosen*, pp. 156-68


IV. Taxation of Personal Income

Rosen, Ch. 15


A. Effects on Labor Supply

Rosen, Ch. 16, pp. 373-83


B. Effects on Savings and Risk-Taking

Rosen, Ch. 16, pp. 383-97.

Handbook, Vol. 3, Ch. 18, “Taxation and Saving,” B. D. Bernheim


C. Taxation and Housing


D. Effects on Charitable Contributions


E. Effects on Family Structure


F. Earned Income Tax Credit

Rosen, pp. 166-67


**See also the rest of the articles in NTJ, Special Issue on The Earned Income Tax Credit, December 2000, 53(4, part 2)**


G. Avoidance, Evasion and Compliance


H. Other Issues of Income Taxation (issues of optimality and incidence covered in Econ 842)


V. Other Forms of Taxation

Rosen, Ch. 19

A. Estate Taxes


**VI. Issues of State and Local Government Finance**

*Rosen, Chs. 6 and 20*


**A. Mobility of Voters and Tax Bases, State Competition and Public Choice**


“Incumbent Behavior: Vote-Seeking, Tax-Setting and Yardstick Competition,” T. Besley and A. Case

“Theories of Tax Competition,” J.D. Wilson


“Do Local Governments Engage in Strategic Property Tax Competition?” J.K. Brueckner and L.A. Saavedra

“Diagnosis Murder: the Death of State ‘Death’ Taxes,” working paper, September 200

“Recent Developments in State “Death” Taxes,” K.S. Conway and J. C. Rork

“State Abortion Legislation as a Public Good – Before and After Roe v. Wade,” K.S. Conway and M.R. Butler


“Do the Elderly ‘Vote with their Feet’?” K.S. Conway and A.J. Houtenville.

B. Revenues – Intergovernmental grants/Flypaper effect and Property taxes


“Property Taxation and the Tiebout Model: Evidence for the Benefit View from Zoning and Voting,” W.A. Fischel


"Land Value Taxation and Local Economic Development: Results of a Simulation Study," State Tax Notes, 22 April 2002, Richard England


C. Expenditures – The Special Case of Education


“Introduction and Summary,” G. Burtless, Ch. 1 in Does Money Matter? The Effect of School Resources on Student Achievement and Adult Success, edited by G. Burtless, Brookings Institution Press, 1996. The rest of the chapters are terrific too!


AER, December 2000, 90(5), pp. 1209-1238, “Does Competition Among Public Schools Benefit Students and Taxpayers?” C.M. Hoxby

