

PUBLIC ECONOMICS: ECONOMICS OF THE GOVERNMENT SECTOR: ECON 4211-001  
Department of Economics, University of Colorado  
Fall 2018

Class time: M, W, F: noon - 12:50pm.  
Professor: Charles de Bartolome

Lecture Room: HMS 241  
Office: ECON 203

## Course Assignments and Desire2Learn

All course assignments, problem sets and some lecture notes are posted on Desire2Learn which may be accessed at <http://learn.colorado.edu> .

Please note that four pages of each Adobe Acrobat file can be printed on a single sheet by clicking as: Print > landscape > Multiple > Custom 2 by 2.

## Attendance at class

Woody Allen once remarked "90% of success is just turning up". The best way to



### Failure to be present at an exam

If you are unable to take an exam because of illness: You must get a medical note from a doctor to confirm your inability to take the exam and advise me of your inability before the exam. In this case you may take a make-up. Otherwise, unless you have obtained my prior permission to take the make-up, failure to be present for an exam will cause your score to be 0 for that exam.



## Course outline

A list of topics to be covered and likelihoods is shown on the next page. This is an estimated plan. Topics may take more or less time than estimated in this plan.

## COURSE OUTLINE

| <u>Date</u>                       | <u>Topic</u>   | <u>Chapter</u> |
|-----------------------------------|--|----------------|
| 1. INTRODUCTION                   |  |                |
| 27 Aug                            | INTRODUCTION<br>Fundamental Question of Public Economics<br>Micro v. Macro<br>Separation of expenditure and taxes  | 1              |
| 29 Aug                            | Government size<br><br>FISCAL FEDERALISM<br>Assignment of responsibilities<br><br>Problem Set Fiscal Federalism  | 22             |
| 31 Aug                            | Normative v. positive<br><br>POSITIVE ECONOMICS<br>The need for a model  | 2              |
| 5 Sept                            | NORMATIVE ECONOMICS: THE OBJECTIVE<br>Pareto-efficiency<br>Welfare functions<br>Need for a model   | 3              |
| 2. BASE CASE: COMPETITIVE MARKETS |  |                |
| 7, 10, 12 Sept                    | PRIVATE GOODS<br>Competitive outcome.<br>First fundamental welfare theorem.<br>Second fundamental welfare theorem.<br><br>Problem Set First Fundamental Welfare Theorem<br>Problem Set Public Provision of Private Goods<br>Problem Set Second Fundamental Welfare Theorem | 3 (cont)       |

### 3. MARKET FAILURE: PUBLIC GOODS

14, 17, 19, 21, 24, 26 Sept PUBLIC GOODS 4

Non-rivalness and non-excludability.  
 Efficient provision.  
 Free-rider problem.  
 Public vs. private provision.

Problem Set Why the lights don't get turned off after class.  
 Problem Set Non-excludable public good.  
 Problem Set Excludable public good.

### 4. GOVERNMENT FAILURE: PUBLIC DECISION-MAKING

28 Sept, 1,3,5,8,10,12 Oct PUBLIC DECISION-MAKING 8

Normative: Benefit-cost analysis 6P Á

**Positive:**

Informed voters:

- majority voting - median voter theorem.
- by the big public good.  $\Delta \pm \epsilon C - \epsilon P$  Positive  $C \geq 0$  an  $P \geq 0$



## 5. MARKET FAILURE: EXTERNALITIES

|                                     |   |   |
|-------------------------------------|---|---|
| 19, 22, 24, 26<br>29, 31 Oct; 2 Nov | <p><b>EXTERNALITIES</b></p> <p>Efficient behavior.<br/>Coase theorem.<br/>Pigou taxes and subsidies.<br/>Regulation.</p> <p>Problem Set the Coase theorem.<br/>Problem Set Pigou tax<br/>Problem Set Permit sales.<br/>Problem Set Regulation</p> | 5 |
|-------------------------------------|---|---|

## 6. INCOME REDISTRIBUTION

|                 |   |        |
|-----------------|---|--------|
| 5, 7, 9, 12 Nov | <p><b>INCOME REDISTRIBUTION</b></p> <p>Process or end-state criterion.<br/>Equity and social welfare functions.<br/>Utilitarianism.<br/>Max-min and the original position.<br/>A typical redistribution program<br/>The shrinking pie.<br/>The equity-efficiency trade-off.<br/>Public provision of private goods.</p> <p>Problem Set Okun's Bucket: Redistribution Program<br/>Problem Set Social welfare and income redistribution.</p> | 12, 13 |
|-----------------|---|--------|

## 7. TAX ANALYSIS

|                |  |                          |
|----------------|--|--------------------------|
| 14, 16, 26 Nov | <p><b>PUBLIC FINANCE: TAX OR DEFICIT FINANCING</b></p> <p>Ricardo equivalence.<br/>Keynes view.<br/>Overlapping generation model.<br/>Traditional argument.<br/>Crowding out of capital.<br/>Social Security</p> | 20<br><br><br><br><br>11 |
|----------------|--|--------------------------|

Problem Set Tax or deficit financing  
 Problem Set Bonds crowd out capital  
 Problem Set Social security and saving.  
 Problem Set Demographic issues

28, 30 Nov  
 3, 5 Dec

TAXATION: PRODUCT AND INCOME TAXES

15

Do sales taxes reduce consumption  
 Do labor taxes reduce effort?  
 Do capital taxes reduce saving  
 Excess Burdens

Problem Set Setting the product tax rate.  
 Problem Set Product tax excess burden.  
 Problem Set Product Tax short-run and long-run  
 Problem Set Setting the income tax rate.  
 Problem Set Income tax excess burden.  
 Problem Set Okun's bucket: cost of redistributing income

7, 10 Dec

TAXATION: NORMATIVE RULES FOR SETTING TAX RATES

16

Tax rules  
 Tax reform

Problem Set Tax Reform

12 Dec

REVIEW

18 Dec

FINAL EXAM (4:30 - 7.00 p.m. in HMS 241)