

## EC720 Economics of Public Expenditures

Spring 2009

Instructor: Dr. Anita Alves Pena

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Class Meetings: TR 2-3:15pm, Eddy 103.

Office Hours: TR 12noon-1pm, or by appointment.

Textbook (recommended): J. Hindriks and G.D. Myles: Intermediate Public Economics, 2006 (H&M).

Another useful reference: A.E. Boardman, D.H. Greenberg, A.R. Vining, and D.L. Weimer: Cost-Benefit Analysis, 3rd edition, 2006 (BGV&W). (The instructor has at least two extra copies which can be borrowed/shared.)

Course website: login at <http://ramct.colostate.edu>

### Course Objective:

The course is concerned with the analysis of the welfare foundations of public expenditure, including cost-benefit analysis (CBA). Topics include theory of public expenditure, state and local public goods, redistribution and welfare, education, social insurance, and health care policy. We will review classic and recent literature in public economics, become equipped with practical tools of CBA, and expand the analytics of public expenditure to the beginnings of independent research.

### Prerequisites:

First-year graduate microeconomics and econometrics, or equivalent. I will assume that you are already familiar with the theory and tools from these courses and therefore can read and understand academic literature within economics.

### Grading:

*Class Participation (10%)*

Attendance, participation, and preparation for class is expected. Furthermore, the quality of class discussion depends on your questions, comments, and reflections.

*Literature Presentation (20%)*

Each of you will present two papers to the class from the syllabus below and lead subsequent discussion. Each presentation should be approximately one hour in length and of similar format to how papers are presented in an academic seminar. Preparing these presentations will give you a chance to polish your academic presentation skills and will give you detailed understanding of the papers you present. A sign up sheet will be available in class early in the semester.

*Referee Report (10%)*

You will write a mock referee report based on a new working paper in public economics. The paper you choose should relate to an area of public economics that is of interest to you. Recent papers can be found online at sites such as *http : //www.nber.org/jel/H\_index.html* and on author's websites. Reports should be two or three single-spaced typewritten pages. Reports should briefly summarize and then elaborately critique the paper (i.e. is the question well motivated, is the correct data used, are the identifying assumptions reasonable, is the model appropriate for the question, etc.) After you have chosen a working paper to review, you should send it to me for approval. This should occur at least two weeks before the report is due. Please note the due date for this and other assignments on the schedule below.

*Literature Review (20%)*

In lieu of a term paper, you will write an original literature review (not submitted in any other class) corresponding to a topic related to public economics (broadly-defined) which is of interest to you. The literature review should be 10-12 pages in length (double-spaced, one inch margins) and cover at least five journal articles or working papers. At least three papers should not appear on this syllabus. The concluding section of this paper should describe a possible research question that you could pursue to extend this literature and outline *in detail* how you could approach it. You are strongly encouraged to use LaTeX to typeset your paper. Links to resources to get you started with LaTeX are provided on RamCT.

*In-class Midterm Exam (20%)*

*Take-home Final Exam (20%)*

The in-class midterm and take-home final will cover concepts and applications from literature reviewed in the course and will be similar to the types of questions on the field exam. The midterm date is specified below. The take-home final is cumulative and will be assigned the final day of class to be turned in as scheduled during exam week.

## Syllabus and Reading List:

This schedule is subject to change and will be revised later in the semester if necessary. Most papers on the reading list are available via JSTOR, ScienceDirect, NBER, or other online repositories. Please let me know if you are unable to locate a paper, and I will make it available. You are expected to complete the following reading whether or not we focus on specifics in class. Additional (optional) suggested readings are provided at the end of each chapter in H&M.

### *Introduction and Review of Tools for Public Finance*, Week of January 20

- H&M Chapters 1-3, 12
- Arrow, K.J. (1950) "A Difficulty in the Concept of Social Welfare," *The Journal of Political Economy*, 58(4): 328-346.

### *Theories of Public Goods and Externalities*, Weeks of January 27 and February 3

- H&M Chapters 5, 7
- Samuelson, P. (1954) "The Pure Theory of Public Expenditures," *Review of Economics and Statistics*, 36(4): 387-389. We will simultaneously discuss Samuelson's 1955 and 1958 articles:
  - Samuelson, P. (1955) "Diagrammatic Exposition of a Theory of Public Expenditure," *Review of Economics and Statistics*, 37(4): 350-356.
  - Samuelson, P. (1958) "Aspects of Public Expenditure Theories," *Review of Economics and Statistics*, 40(4): 332-338.
- Coase, R. (1960) "The Problem of Social Cost," *Journal of Law and Economics*, 3: 1-44.
- Bergstrom, T., L. Blume and H. Varian, (1986) "On the Private Provision of Public Goods," *Journal of Public Economics*, 29: 25-49.
- Andreoni, J. (1988) "Privately Provided Public Goods in a Large Economy: The Limits of Altruism" *Journal of Public Economics*, 35: 57-73.

THURSDAY, FEBRUARY 5: deadline to submit working paper for approval for use for mock referee report (email to [anita.pena@colostate.edu](mailto:anita.pena@colostate.edu))

*Clubs, Tax Capitalization, and Local Public Goods*, Weeks of February 10 and 17

- H&M Chapter 6
- Tiebout, C.M. (1956), "A Pure Theory of Local Expenditures," *Journal of Political Economy*, 64(5): 416-424.
- Buchanan, J.M. (1965), "An Economic Theory of Clubs," *Economica*, 32(125): 1-14.
- Oates, W.E. (1969), "The Effects of Property Taxes and Local Public Spending on Property Values: An Empirical Study of Tax Capitalization and the Tiebout Hypothesis" *The Journal of Political Economy*, 77(6): 957-971.
- Fisher, R. (1982), "Income and Grant Effects on Local Expenditures: The Flypaper Effect and Other Difficulties," *Journal of Urban Economics*, 12: 324-345.

THURSDAY, FEBRUARY 19: REFEREE REPORT DUE

*Federalism, Intergovernmental Relations, and Budget Process*, Weeks of February 24 and March 3

- H&M Chapters 17-18
- Oates, W.E. and R.M. Schwab (1988), "Economic Competition Among Jurisdictions: Efficiency-Enhancing or Distortion-Inducing?" *Journal of Public Economics*, 35: 333-354.
- Holtz-Eakin, D. (1988), "The Line-Item Veto and Public Sector Budgets: Evidence from the States," *Journal of Public Economics*, 35: 269-292.
- Epple, D. and T. Romer (1991), "Mobility and Redistribution," *Journal of Political Economy*, 99(4): 828-858.
- Poterba, J. (1995), "Balanced Budget Rules and Fiscal Policy: Evidence from the States," *National Tax Journal*, 48(3): 329-336.
- Poterba, J. (1995), "Capital Budgets, Borrowing Rules, and State Capital Spending," *Journal of Public Economics*, 56(2): 165-187.

TUESDAY, MARCH 10: MIDTERM EXAM IN CLASS

Thursday, March 12: “Political Economy”

- H&M Chapter 10

Week of March 17: SPRING BREAK, NO CLASS

*Cost-benefit Analysis*, Week of March 24 and March 31

- Introduction and Foundations of CBA, BGV&W Chapters 1-3.
- Valuing Benefits and Costs and Discounting, BGV&W Chapters 4-6.
- Uncertainty, Option Values, and Existence Value, BGV&W Chapters 7-9.

*Public vs. Private Provision, Social Returns, and Education Policy*, April 2, and Weeks of April 7 and 14

- Feldstein, M.S. (1975), “Wealth Neutrality and Local Choice in Public Education,” *American Economic Review*, 65(1): 75-89.
- Fernandez, R. and R. Rogerson (1996), “Income Distribution, Communities and the Quality of Public Education,” *Quarterly Journal of Economics*, 111(1): 135-164.
- Hoxby, C.M. (2000), “Does Competition among Public Schools Benefit Students and Taxpayers?” *American Economic Review*, 90(5): 1209-1238. We will also discuss the comment and reply to this article:

Rothstein, J. (2007), “Does Competition Among Public Schools Benefit Students and Taxpayers? Comment.” *American Economic Review*, 97(5): 2026-2037.

Hoxby, C.M. (2007), “Does Competition Among Public Schools Benefit Students and Taxpayers? Reply.” *American Economic Review*, 97(5): 2038-2055.

- Weimer, D.L. and M.J. Wolkoff (2001), “School Performance and Housing Values: Using Non-contiguous District and Incorporation Boundaries to Identify School Effects,” *National Tax Journal*, 56(2): 231-253.
- Behrman, J.R. and M.J. Rosenzweig (2002), “Does Increasing Women’s Schooling Raise the Schooling of the Next Generation?” *American Economic Review*, 92(1): 323-334.

*Social Insurance Policy*, Weeks of April 21 and 28

- H&M Chapter 20 (Chapters 13 and 19 for context, review of tools)
- Samuelson, P. (1958), “An Exact Consumption-Loan Model of Interest with or without the Social Contrivance of Money,” *Journal of Political Economy*, 66(6): 467-482.
- Feldstein, M. (1974), “Social Security, Induced Retirement, and Aggregate Capital Accumulation,” *Journal of Political Economy*, 82(5): 905-926.
- Feldstein, M. (1985), “The Optimal Level of Social Security Benefits,” *Quarterly Journal of Economics*, 100(2): 303-320.

*Additional Topics in Public Economics*, Week of May 5

- Blank, R. (2002), “Evaluating Welfare Reform in the U.S.,” *Journal of Economic Literature*, 40(4): 1105-1166.
- Gruber, J. (2008), “Covering the Uninsured in the United States,” *Journal of Economic Literature*, 46(3): 571-606.
- Goda, G.S. (2008), “Public and Private Financing of Long-Term Care: Do Tax Subsidies for Insurance Save Governments Money?,” Working Paper (<http://people.rwj.harvard.edu/~ggoda>).

THURSDAY, MAY 7: LITERATURE REVIEW DUE

THURSDAY, MAY 14, TAKE-HOME FINAL EXAM DUE at 11AM SHARP in my office.