

Economics 322: Public Economics
Professor Shelton
Spring 2007

Public economics seeks to answer questions concerning the interplay of the private and public sectors. Questions such as: How does the government participate in the economy? Why are some economic activities undertaken in the private sector while government plays a role in others? What is the proper scope of government?

This course will be in two parts. In the first section, I will give lectures based on formal models to explain the basic theory of public economics. There will be occasional problem sets and the section will be capped by a midterm. In the second section, we will have student-led discussions on specific topics to see how the theories apply to relevant policy issues. Students will be concurrently writing an analytic research paper on a topic of their choosing.

Assignments and Grading

Assignments:

Problem Set 1	10%
Problem Set 2	10%
Midterm	20%
Discussion leading	10%
Participation	10%
Final Paper	
Ideas	1%
Paper proposal	4%
Preliminary draft	10%
Final draft	25%

Grading:

There will be a total of 100 points in the class. If an assignment, a , is worth $w_a\%$ of the total grade, it will have a total of w_a possible points. Your scores on the problem sets and midterm are objective, based on the correctness of your answers. Your scores for discussion leading and the components of your paper will depend more on how your work compares to that of your peers. Denote your score on assignment a by s_a . Then your total score for the course is $T = \sum s_a$. The distribution of T will be curved to give your course grade.

Problem Sets: These are designed to test your ability to apply the structured method of analysis presented in the first section of the course. They involve some limited solving of mathematical models but the greater emphasis is on reasoning within the quantitative framework. The questions and due dates are already posted on the course website. These may take some time, so be sure to plan ahead. You may work in pairs.

Midterm: An in-class exam. The purpose and format are similar to the problem sets though the questions will likely be simpler given the time constraints.

Participation: Following the midterm, the final third of the class meetings will be conducted as discussions. You are expected to attend, have done the readings, have considered the discussion questions, and participate in an exchange of ideas. Useful participation involves listening and responding to the ideas of others as well as sharing your own.

Discussion Leading: Each student will co-lead one of these discussion sessions. This involves preparing and distributing questions beforehand as well as conducting the discussion. Signups will be conducted several weeks in advance. I encourage you to sign up for a session that dovetails with your interest for your paper topics.

Paper: The paper is your opportunity to apply the insights of this course to a specific topic of interest. There is a section later in the syllabus with ideas about topics and sources. There will be intermediate deadlines throughout the course to keep you on task.

Topic Ideas: Monday February 19th

An email to me containing a couple paragraphs explaining topics/questions of interest to you, where you plan to look to flesh out your ideas, and asking any questions you may have on how to proceed.

Proposal: Monday March 5th

A two page statement of your chosen topic, explanation of its relevance to public economics, projected course of research, and major sources. Your topic should include a specific question you propose to answer.

Preliminary Draft: Friday April 27th

A readable version with an argument and supporting reasoning. I will give you feedback and directions for fleshing out your argument.

Final Draft: Monday May 14th

I am expecting a paper of between 12 and 16 pages in length (12 pt Times New Roman, 1.5 spaced). The paper ought to (a) explore a topic related to public economics, (b) use the framework of the course to answer a question or explain a set of facts. I prefer a well-written, tightly-reasoned paper to a long, rambling one. This requires multiple drafts and rewriting so don't delay in putting your initial thoughts to paper; give yourself time to come back and revise them.

Paper Topics and Sources

Topics:

The paper is your opportunity to apply the insights of Public Economics to a specific topic. I want you to think about the issue from the perspective of public choice. For any topic you should consider the following questions:

- What is the theoretical rationale for government involvement? (I.e. where is the market failure?) Has this rationale been convincingly demonstrated or simply presumed? What is the public rhetoric justifying involvement?
- What is the distribution of preferences?
- What are the informational barriers?
- How is policy formulated? In other words, how are individual preferences aggregated to make a social choice?

A good paper will use the framework of the class to understand an issue in public economics. I am not asking you to write and solve a model, or run a set of regressions. But I am asking for an analytic rather than a purely narrative paper. Here are some broad categories with more specific examples. Please discuss your topic with me before submitting a proposal.

- History of X: explaining policy changes as the result of changes in the underlying preferences, information, aggregation mechanism, etc.
 - What explains the evolution of the composition of tax revenue?
- Should X be allocated by the public or private sector?
 - Why does the government build and maintain interstates while at the same time we have private toll roads? Should roads be public goods or pay-as-you-go?
 - What factors should determine the degree of state level revenue sharing among local school districts?
- What are the practical difficulties of implementing theoretically suggested policy X? And what costs does this imply the theory abstracted from or assumed are small?
 - What are the difficulties in creating a world market for carbon trading?
- Evaluation of proposed policy X or comparison of alternate policies X and Y.
 - What are the merits of the flat tax?
- Elaboration of the fundamental difficulties of implementing policy topic X according to the theory of public economics.
 - What are the factors blocking universal health coverage from a social choice perspective?
- How do behavioral factors (departures from frictionless maximizing behavior) affect market failure X?
 - How do behavioral barriers to adopting energy-efficient policies affect the proper solution to pollution externalities?

NOTE: If you are planning to write a paper on a topic on which you have already written or are concurrently writing for another class, please talk to me about it before starting. A situation like this *might* be accommodated if the papers are independent enough, however as a general rule this is not recommended. Writing a paper on a same topic for two classes concurrently or reusing an old paper without an explicit arrangement with me will be treated as academic dishonesty. However, if you are writing a paper on a relevant topic for another class, your interest in the subject need not go to waste. With planning, we can find a topic which is sufficiently related to leverage your knowledge, yet sufficiently independent to warrant credit.

Sources:

The following is a non-exhaustive list of sources for your term paper.

1. Journals publishing literature reviews (accessible through MU Library Website <http://www.missouri.edu/~elliswww/full-text.shtml>)

- Journal of Economic Perspectives - Least technical among the first three
- Journal of Economic Surveys
- Journal of Economic Literature
- The Economist's Voice

Sometimes also the more technical economic journals (like American Economic Review) publish articles (e.g. presidential addresses on a given topic) that are a valuable non-technical resource.

2. Think-tanks and private foundations: most of the organizations (albeit not all) below are partisan to some degree or at least more sympathetic to one point of view (often due to their source of funding), and this should be taken into account when citing their research papers:

- Brookings Institute www.brookings.edu
- Urban Institute www.urban.org
- [Tax Policy Center](http://www.taxpolicycenter.org) Joint initiative between Brookings and Urban Institute
- Heritage Foundation www.heritage.org
- Cato Institute www.cato.org
- American Enterprise Institute www.aei.org
- Rand Institute www.rand.org
- Century Foundation www.tcf.org
- Henry J. Kaiser Family Foundation www.kff.org

3. Pure Interest Groups

- AARP www.aarp.org
- Concord Coalition www.concordcoalition.org
- Club for Growth www.clubforgrowth.org

4. Academic and professional organizations

- National Academy of Social Insurance www.nasi.org
- National Tax Association www.ntanet.org
- National Bureau of Economic Research www.nber.org (Working Papers can be very technical)

5. Government Resources

Depending on the topic chosen, several governmental agencies publish research on relevant topics. They are also excellent places to go in search of basic facts about the US economy. The CBO and GAO are particularly good.

- Congressional Budget Office www.cbo.gov
- General Accounting Office www.gao.gov
- Social Security Administration www.ssa.gov
- Environmental Protection Agency www.epa.gov
- Office of Management and Budget <http://www.whitehouse.gov/omb/>
- Council of Economic Advisors <http://www.whitehouse.gov/cea/>
- US Government Portal Site <http://www.firstgov.gov/>

5. International Organizations: The following international organizations sometimes publish general (non-US specific) articles on several topics that are relevant for the course:

- Organization for Economic Cooperation and Development www.oecd.org
- International Monetary Fund www.imf.org
- World Bank www.worldbank.org

6. Financial/Economic Journals (online versions require subscription):

- The Economist www.economist.com
- The Wall Street Journal www.wsj.com

Also excellent sources for finding information from newspapers are:

- Lexis-Nexis
- news.google.com

7. Resources from Academia

- [University of Michigan Office of Tax Policy Research](http://www.umich.edu/~taxpolicy) Their Tax Policy 101 is an excellent introduction to many topics

8. Random Googling

Web searches are bound to turn up interesting material for your project. The problem is the material is likely inaccurate and of unknown bias. I do not recommend random Googling until you have already mapped out higher quality sources and have a sense of the subject and are therefore equipped to screen the product of your search. When citing material from the web, think critically about who published the material. Are they objective researchers or do they have a vested interest? What are the institutional affiliations and what are the credentials of the authors? Naturally, this is hard to evaluate and even objective researchers can be biased. The general idea is to evaluate the source as well as the information.