

# 180.365 - Public Finance

Fall 2007

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<http://econ.jhu.edu/people/ccarroll/courses/365/>

Office Hours Mondays 3:30-5:30 Mergenthaler 441

To make an appointment, see

<http://econ.jhu.edu/people/ccarroll/calendar.html>

Teaching Assistants:

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Public finance is the branch of economics that analyzes the role of government in the economy. This course will use the basic tools of economics to analyze competing views of what government does and what it ought to do.

Course requirements include two hour exams, on Tuesday October 16 and on Tuesday November 13, which will each count for 20 percent of your grade; five problem sets worth a total of 10 percent of your grade; and a final exam as specified at <http://www.jhu.edu/registrar/exam.html> (December 17 at 9 am in 300 Shaffer), which will constitute the remaining 50 percent. Students may work together on the problem sets, but everyone must write his or her problem set answers separately. *If substantially identical problem sets are turned in, then all of the people with matching problem sets will get zeros for those problem sets.*

The strength of the university depends on academic and personal integrity. In this course, you must be honest and truthful. Ethical violations include cheating on exams, plagiarism, reuse of assignments, improper use of the Internet and electronic devices, unauthorized collaboration, alteration of graded assignments, forgery and falsification, lying, facilitating academic dishonesty, and unfair competition. Report any violations you witness to the instructor. You may consult the associate dean of student affairs and/or the chairman of the Ethics Board beforehand. See the guide on “Academic Ethics for Undergraduates” and the Ethics Board Web Site (<http://ethics.jhu.edu>) for more information.

The text is *Public Finance* by Harvey Rosen (7th edition), though you may also use the 5th or 6th or 8th editions (which may be available more

cheaply on the internet).

I also recommend (but do not require) a 12-week student subscription to *The Economist* magazine, <http://www.economistacademic.com>, click on “Student,” enter my faculty ID of 1255, and choose 12 issues (for the low, low price of \$19.95). *The Economist* is also available online through the Hopkins library, which is why a subscription is not required. But I may use stories from it during the class (and I often use *Economist* articles as a source of ideas for exam questions!), so it is worth getting your own subscription.

Problem sets, previous years’ exams, and other course materials will be posted at <http://econ.jhu.edu/people/ccarroll/courses/365>

The syllabus is integrated with my web page as follows. If you go to the url listed above, you will be presented with a directory, one subdirectory of which is entitled “Topics.” Click on that, and you will find subdirectories corresponding to each of the parts of the course, which contain any supplemental readings for that part (if I have been able to obtain a PDF of the item in question). Each PDF is identified below by its file name.

I will keep in touch about course details via email. I may assign new readings, make course announcements, post problem set solutions, etc in this way. So it is important for you to make sure I have a working email address for you.

The course will be structured as follows.

## Course Introduction

Why Do Some Places Thrive and Prosper ...? Importance of the Rule of Law. Historical theories of prosperity.

**OroukeATTITWCh3:** P.J. O’Rourke, “All the Trouble in the World,” Ch 3

**WhatTheProfOrdered:** New York Times Op Ed by Ian Ayres, Sep 16 2005

**RuleOfLawIndonesia:** “Still Living Dangerously,” *Economist* article Oct 23 2003

## 1 The Foundations of Public Finance

Overview of competing philosophies of government: the organic view versus the individualistic view. The distinction between positive and normative

economics. The relationship between politics and economics.

Readings: Rosen 6/7th Ed Chapter 1, 5th Ed Chapter 1 and

**OrganicPhilosophySaddam:** “Dreams of a Monster,” Daniel Chirot, *Washington Post* Dec 17 2003

## 2 Tools of Public Finance

Tools of positive economics: theory and data. Tools of normative economics. When do markets work and when do they fail? Positive economics, normative economics, and politics.

Readings: Rosen 6/7th Ed Chapters 2 (skim), 3; 5th Ed Chapters 3 (skim), 4.

## 3 Justice and Economics

Rosen reading: 6/7th Ed Chapters 4, 5, 7; 5th Ed Chapters 5, 6, 8.

1. Public Goods
2. Externalities

Required Supplemental Readings:

**EconomicManCleanerEnv:** “Economic Man, Cleaner Planet,”  
*Economist*, Sep 27th 2001

**EPABenefitsExceedCosts:** “Study Finds Net Gain From Pollution Rules,” *Washington Post*, Sep 27 2003

**TruthAboutEnvironment:** “The Truth About the Environment,”  
*Economist*, Bjorn Lomborg, August 2001

**OroukeATTITWCh5:** P.J. O’Rourke, “All the Trouble in the World,” Ch 5

Recommended Supplemental Readings:

Krugman-EarthInTheBalanceSheet: “Earth In the Balance Sheet,”  
Paul Krugman

### 3. Inequality

Required Supplemental Readings:

EconomistClassWar: “Would you like your class war shaken  
or stirred, sir?” *Economist*, Vol. 368  
Issue 8340, p28

### 4. Globalization

Required Readings:

GlobalizationAndItsCritics: “Globalization and Its Critics”  
*Economist*, Sep 27th 2001

ADifferentManifesto: “A Different Manifesto,” *Economist*, Sep  
27th 2001

KrugmanInPraiseOfCheapLabor: “In Praise of Cheap Labor,”  
Paul Krugman

KristofSweatshops: “Let Them Sweat,” Nicholas Kristof,  
*New York Times* OpEd, June 25, 2002

AfricanAidForAmericanFarmers: “Poverty Memo; African Food  
for Africa’s Starving is Roadblockded  
In Congress,” *New York Times*, Oct 12,  
2005

CowPolitics: “Cow Politics,” *New York Times*, Oct  
27, 2005

## 4 Social Insurance

Overview of Economics of Insurance: When Is Insurance Valuable? Insurance  
and Efficiency.

### 1. Health Insurance

Required Reading: Rosen Ed 6-7 Ch 10; Rosen 5 Ch 11

**KrugmanHealthEcon101:** “Health Economics 101,” Paul Krugman, *The New York Times*, Nov 14, 2005

**Oxygen:** “Oxygen Suppliers Fight to Keep a Medicare Boon,” *The New York Times*, Nov 30, 2007

**DontTrustExperts:** “When Trust In An Expert Is Unwise,” *The New York Times*, Nov 7, 2007

Extra Reading (Not Required):

**MakeFatPeoplePayMore:** “Outflanking the Enemy,” *Economist*, Dec 11 2003

**SharkFin:** “High Prices,” *New Yorker*, Critic At Large, 2004-10-25

**HappyGoLucky:** “Happy-Go-Lucky Young”, *Economist*, Oct 4th 2007

## 2. Social Security

Government Accounting, Generational Accounting, Social Security “Accounting.” Facts and Figures

Required Reading: Rosen 6/7th Ed Chapter 10; class hand-outs; plus:

**KinsleyTrustFund:** “What Social Security Trust Fund?,” *Slate*, March 21, 2000

**KinsleyLemonadeMix:** “From Ponzi Scheme to Shell Game,” *Slate*, Saturday, Dec. 14, 1996

# 5 Taxation

- A Framework

Rosen 5th ed Ch. 13, 6/7th ed Ch. 12

Skip “General Equilibrium Models” and everything after that

- Taxation and Efficiency  
Rosen 5th ed Ch. 14, 6/7th ed Ch. 13
- Fair and Efficient Taxation  
Rosen 5th ed Ch. 15, 6/7th ed Ch. 14 Skip “Optimal User Fees”