Econ 150: Public Finance
Fall Quarter 2011

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Office hours: Wednesdays 3:30-5:30pm

Course Description: This course examines the role of the public sector in the economy. The aim of the course is to provide an understanding of the reasons for government intervention in the economy, the extent of that intervention, how government actions affect the economy including the response of private agents to these actions, and how the government finances its operations through taxation.

Prerequisites: Intermediate Microeconomics and Macroeconomics, Calculus. This course builds significantly on the topics studied in Intermediate Microeconomics. We will use many of the tools and concepts from this course such as consumer optimization, income and substitution effects, firm profit maximization, game theory, and others. While this course is about economics, not mathematics, mathematics is a useful tool in communicating the intuition of economics. The important mathematical tools that you should be familiar with are: graphing an equation on a two-dimensional graph, solving a system of two equations and two unknowns, understanding what a derivative is and being able to obtain the derivative of a simple function. This is not a comprehensive list, but these tools will prove to be the most important.

Class Meetings: Lectures will meet on Mondays, Wednesday, and Fridays from 2-3:10pm. There are no TA sessions.

Requirements:

1) Readings – The required text is Public Finance and Public Policy by Jonathan Gruber. Additional readings will be assigned during the quarter.

2) Exams – There will be two exams: a midterm and a final. The midterm exam is tentatively scheduled for October 26 in class. The final exam will be December 6 at 12pm. I will not offer make-up exams for either the midterm or final.

3) Policy proposal and critique – Twice during the quarter we will engage in the following exercise:

Students will organize themselves into groups of up to three. The class will be presented with an economic situation that may call for a policy response. Half of the groups will be assigned to write a policy proposal of up to three pages. On the day when these proposals are due, they will be given to the other half of the groups in the class who will then have one week to write a critique of up to two pages and form a policy recommendation. Be prepared to discuss the proposals and critiques in class.
4) Practice problem sets will be distributed during the quarter, but they will not be graded. Completion of these will be important to your success on the exams.

5) Optional: Piazza

We are going to try using Piazza this quarter, a free online Q&A service designed for students to post questions about the material, course administration, etc. Other students can respond to the questions, and answers can be edited Wikipedia style. Sign up at piazza.com/ucsc/fall2011/econ150

Grading:

- Midterm exam 30%
- Final exam 50%
- Policy proposal and critique 20%

Miscellaneous:

The website for the course can be found at:

http://people.ucsc.edu/~marion/classes/econ150/150.html

Please check it for course updates and additional readings during the quarter. I will place problem sets on the course website after they are handed out in class.

Cheating during the exams will not be tolerated. I expect all students maintain the standards of academic integrity delineated in http://www.ucsc.edu/academics/academic_integrity/index.html. Any violations of academic integrity standards will be dealt with in accordance with University policy. If you are caught cheating during one of the exams, I will fail you and report the incident to the University. It is not worth it!

Outline of the Course:

1) Introduction to Public Economics (Gruber, Chapters 1-2)

Role of the Government:

2) Externalities (Gruber, Chapters 5-6)

3) Public Goods (Gruber, Chapter 7)

4) Cost Benefit Analysis (Gruber, Chapter 8)

5) State and Local Government (Gruber, Chapter 10)

6) Social Insurance (Gruber, Chapters 12-16)

7) Inequality and welfare programs (Gruber, Chapter 17)
Financing the Government:

8) Institutions and Theory of Taxation (Gruber, Chapter 18-20)

9) Taxation and labor supply (Gruber, Chapter 21)

10) Taxes on savings, risk taking, and wealth (Gruber, Chapter 22-23)

11) Corporate Taxation (Gruber, Chapter 24)