Economics 471/871: Public Finance

Course  In this course we will cover microeconomic analysis of policy issues in public finance, emphasizing taxation. The major topics will include: (a) public goods and externalities, (b) tax incidence, equity, and efficiency, and (c) fiscal federalism. A blend of theory and empirical policy analysis will be used throughout the course.

Prerequisites  Students are expected to have a good background in intermediate level economic theory, statistics, and mathematics. A prior course in public finance is not required. This course is intended for beginning graduate students and advanced undergraduates.

Class  Monday, Wednesday, and Friday 9:30 to 10:20 a.m., CBA 20.

Office  Location: 348 CBA. Hours: 3:00 to 4:00 p.m. Monday and Wednesday. Other times by appointment. Phone: 472-1190 or 472-2319 (leave message). E-mail: janderso@unlinfo.unl.edu

Texts

Exams  There will be three examinations in this course each covering approximately one third of the course material. Exam 1 is scheduled for October 4, Exam 2 for November 11, and Exam 3 for December 17 (in the final exam time slot 7:30 to 9:30 a.m.) Exams will consist of a combination of short-answer questions, problems, and essays. A make-up exam will only be given in case of a documented medical problem or a university-approved absence, with prior notification. Students should purchase bluebooks and bring them for use in taking the exams.

Paper  A term paper is required in this course. The paper should be based on a current issue in public economics (federal, state or local) covered in the course. Select a policy issue in consultation with Professor Anderson. The object of the paper is to analyze that policy issue using economic theory. The paper should be approximately 15 pages in length, double-spaced, typed. A total of 100 points may be earned on the paper. Grades will be assigned taking into account: (a) relevance of the topic to the course, (b) summary of the issues involved, (c) applications of economic theory and empirical analysis to the policy issue, (d) clarity of writing and exposition, and (e) term paper form. Term paper guidelines will be distributed after the first exam.

Grades  Course grades will be assigned on the basis of student performance on the three exams and
the term paper. A total of 400 points may be earned in the course. Letter grades will be
assigned based on the total points earned in the course. Students should note that the last
day to drop the course is November 15. Graduate students must earn a grade of B or better
in order to receive credit for this course since there is a 400 level counterpart. Any non-
economics student taking this course on a pass/fail basis must complete all the requirements
of the course, including all three exams and the term paper. An incomplete (I) is granted
only when the student has competed a significant portion of the course work with an
acceptable grade but is unable to finish the course requirements due to a documented
medical problem or some other extraordinary circumstance.

Assignments
Written assignments will be distributed during the semester. It is essential that students
work these problems in order to prepare adequately for the exams. The assignments are not
collected or graded, but are important to master in order to do well in the course.

Policy
The University of Nebraska-Lincoln reaffirms its desire to create an environment for all
students and employees that is fair and responsible—an environment where distinctions are
made on the basis of ability and performance. [1994-96 Graduate Studies Bulletin,
page 9] Students are advised that neither the Economics Department nor the College of
Business Administration will tolerate sexual or racial harassment in the classroom. If you
have such a complaint, you may take it up with the instructor, the department chair, the dean,
or the campus EEO/Affirmative Action Office.
Reading List

Part 0: Introduction
   A. Introduction to public economics
   B. The paradigm of economics

Part I: Market Allocation, Market Failure, and Collective Decision Making
   A. Competitive equilibrium
      Johansson chapter 2
      Cornes and Sandler chapters 3 and 4
   B. Evaluating public finance policy: consumer surplus, and welfare criteria
      Johansson chapters 3, 4, and appendix
   C. Market failure: Externalities
      Johansson chapters 5 and 7
      Cornes and Sandler chapters 3, 4, and 5
   D. Market failure: Public goods
      Johansson chapters 5 and 6
      Cornes and Sandler chapters 6-10 and 17-18
   E. Collective decision making
      Johansson chapters 6, 7, and 8
      Mueller chapters 4 and 5

Part II: Tax Theory and Policy
   A. Tax theory: Efficiency effects of taxation

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1 Books listed here, other than the course texts, can be found at the reserve desk in Love Library. Journal articles, however, are not on reserve.


B. Tax Theory: Incidence effects of taxation


B. Optimal taxation


C. Tax evasion


D. Federal tax policy--applied research topics


Part III Fiscal Federalism and Intergovernmental Relations

A. Local Public Goods and Finance
B. Fiscal Federalism

Pechman chapter 9


C. Fiscal Disparities, Equalization, and Grants


