Economics 971:  
Public Expenditure, Taxation and Fiscal Incidence

COURSE  This course covers the economics of the public sector with special emphasis on taxation. We will consider (a) market failure due to public goods and externalities, (b) efficiency and equity in taxation, and (c) local public economics. In each topic area our coverage will include both theoretical and empirical work.

PRE-REQUISITE The prerequisite for this course is Economics 871, Public Finance, or permission of the instructor. Beyond introductory public finance, it is essential that students have a solid grasp of advanced microeconomic theory and econometrics. Students who have not successfully completed Economics 973 and 957, or equivalents, are not advised to take this course.

CLASS  Monday and Wednesday 1:30 to 2:45 in CBA 361.

OFFICE  Location:  348 CBA.  
Hours:  Monday and Wednesday 3:00 to 4:00 p.m., and other times by appointment.  
Phone:  472-1190 or 472-2319 (leave message).  
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TEXTS  The text for this course is Public Economics by Gareth D. Myles, Cambridge University Press, 1995. This book is available in the bookstores.

We will also be relying on several chapters of the Handbook of Public Economics by Alan J. Auerbach and Martin Feldstein, New York: Elsevier Science Publishers (North-Holland), Volume 1 (1985) and Volume 2 (1987). These volumes are on reserve in Love Library.

Good reference books on public economics include:  

EXAMS  There will be two examinations in this course; a midterm and a final. A make-up exam will be granted in the case of a documented medical problem or other university-approved absence, provided that advance notification is given.

PAPER  Each student will be required to write a research paper on a topic of direct relevance to the course material. Specific guidelines for the papers are as follows:
1. Objective: The objective for your research paper is to conduct tax policy research. You may extend or generalize an existing theoretical model or you may empirically test the implications of a theoretical model. Begin with a tax policy issue of interest to you. Consult with Professor Anderson regarding the appropriateness of the topic and approach. Then determine what economic model is appropriate to the issue. Use the model to analyze the tax issue and draw policy implications. Your analysis may be either theoretical or empirical.

2. Grades: Papers will be graded on both form (15%) and content (85%). On content, your grade will be based on our choice of topic, modeling method and its application, and the policy implications derived. On form, see the instructions below.

3. Outline: Follow this approximate outline in preparing your paper.
   I. Introduction (1 page)
   II. Review of the Issue and Literature (2-3 pages)
   III. Economic Analysis (5-7 pages)
   IV. Policy Implications (2-3 pages)
   V. Summary and Conclusions (1-2 pages)


5. Length: The paper should be approximately fifteen pages in length, double-spaced, typed.

6. References: You must list all the references you cite in the paper in a reference list at the end. List only those sources from which you took ideas or quotations. List every source from which you took an idea or a quotation. Use a standard reference format which includes author, title, date, publisher.

7. Plagiarism: Plagiarism is the taking of another person's thoughts or words and presenting it as if it is your own. It is unacceptable. If you want to use another author's words, enclose those words in quotation marks in your paper and provide the appropriate citation telling where you found them. If you are quoting a long passage (more than three lines) single space and indent the quotation. If you want to use another author's idea, without using his/her specific words, you must still provide a citation telling where you got the idea. Evidence of plagiarism will result in a failing grade on the research paper.

8. Due Date: Papers are due Friday, December 13, 1996. Late papers will be penalized five points per day.

GRADES

Course grades will be assigned on the basis of student performance on the midterm, final, and research paper, each equally weighted. The last day to drop this course is November 15. Any (non-economic) student taking this course on a Pass/No Pass basis must complete all of the course requirements (two exams and the research paper) in order to receive credit for the course. An incomplete (I) grade will only be granted if the student has completed a significant portion of the course material with an acceptable grade (B or better) and is then prevented from completing the course material due to a documented medical problem or some other extraordinary circumstance.

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. [1996-98 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.

COURSE OUTLINE AND READING LIST

1.0 Foundations of public economics
   1.1 Introduction
       Myles chapter 1
   1.2 General equilibrium and welfare economics
       Myles chapter 2
       Varian chapter 22
   1.3 Overview

2.0 Tax analysis with competitive markets
   2.1 Commodity taxation
       Myles chapter 4
   2.2 Income taxation
       Myles chapter 5
       Jerry A. Hausman, Taxes and labor supply, chapter 4 of the Handbook of Public Economics, Volume 1.
   2.3 Policy reform
       Myles chapter 6
   2.4 Taxation and risk taking
       Myles chapter 7
   2.5 Corporate taxation
       Myles chapter 8

1 Books listed here are on two-hour reserve at Love library. Journal articles are available in bound periodicals.
3.0 Tax Analysis—relaxing the competitive assumptions

3.1 Public goods
   Myles chapter 9
   Varian chapter 23

3.2 Externalities
   Myles chapter 10
   Varian chapter 24

3.3 Imperfect competition
   Myles chapter 11

3.4 Tax evasion
   Myles chapter 12
   John E. Anderson, Taxation and the underreporting of income, unpublished manuscript.

4.0 Local public economics

4.1 Efficient resource allocation and the local public sector

4.2 Tiebout models

4.3 Property and land taxation

4.4 Game theory models of fiscal competition


4.5 Intergovernmental fiscal relations