

# Econ 250 Public Finance and Public Policy

## Washington and Lee University

### Winter 2020

#### Course Information

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##### Class Meetings

- Section 01: Tuesday, Thursday, 09:45-11:15 AM, Huntley Room 230
- Section 02: Tuesday, Thursday, 11:45 AM-1:15 PM, Huntley Room 230

Instructor: Professor Matthew Naven

Office: Huntley 213

##### Office Hours

- Monday 8:30-9:30
- Tuesday 4:00-5:00
- Wednesday 8:30-9:30
- Thursday 4:00-5:00
- By appointment

Piazza Website: [piazza.com/wlu/winter2020/econ250/home](https://piazza.com/wlu/winter2020/econ250/home)

Piazza is a tool that encourages students to collaborate with their classmates. If you have a question about any of the material you can post the question to Piazza and your fellow classmates have the opportunity to provide assistance. I have the ability to endorse answers that students provide which I will use to verify correct answers. If no students can come up with the correct answer then I may provide an answer myself.

I am requiring that all questions related to course content or course details (i.e. anything that is not a personal question or confidential) be posted to Piazza in lieu of email. I will then award participation points both to the students who ask questions and to the students who provide responses.

The goal of this system is for students to engage with their peers and reduce the stigma associated with asking questions. It also allows students who are reluctant to speak in front of the class to earn participation points. At the same time, I benefit because I only have to ask a question once instead of potentially multiple times.

I've found Piazza to be helpful to both myself as the instructor as well as students. Some students find it easier to ask questions of their peers than the professor, and Piazza gives them an opportunity to do so (but please don't feel intimidated about coming to my office hours!). On the other hand, many students, especially at a liberal arts college, enjoy helping their peers or appreciate the opportunity to master material by teaching it to others. Piazza also gives students an opportunity to have questions answered outside of the hours when I check my email.

Piazza is helpful to me because students tend to struggle with the same topics, and I often receive many emails with the exact same question. By having the question posted to Piazza once, with an answer that is publicly available to everyone in the class regardless if they asked the question, the question also has to be answered only once. This saves a lot of repetitive typing for me. The question and answer are a public good that benefits all students struggling with the same material.

Note that the purpose of Piazza is to provide *help* in the form of explaining how to solve questions as opposed to just giving the final answer.

Website: [www.matthewnaven.com/teaching/2019-2020](http://www.matthewnaven.com/teaching/2019-2020)

My website has a link to the syllabus as well as other information for the class.

Email: [mnaven@wlu.edu](mailto:mnaven@wlu.edu)

I don't check email on my phone, and I only check and respond to my email between 9:00 AM and 5:00 PM Monday through Friday. If you're anything like me as an undergrad, this will probably be the exact opposite times of when you're sending emails. Keep this in mind if you want a question answered promptly. I'll do my best to respond to emails quickly within that timeframe, so if I haven't gotten back to you in a couple of days don't hesitate to send a follow up because I may have just lost your email in my inbox. Also note that an email sent late in the day may not get answered until the following day (or week if it's a Friday).

## Course Overview

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Economics is the study of how individuals, firms, and governments allocate scarce resources. The goal of this course is to get students to analyze public finance and public policy topics through the lens of an economist.

Public finance has two main branches: taxation and expenditures. The government collects revenue by taxing

its citizens and then spends this resulting revenue on public programs or other governmental purchases. Public policy is used to correct market failures where markets do not naturally deliver the socially desirable outcome. Public policy also determines the tax code and allocates government expenditures, so public finance and public policy are intricately linked.

Economists often analyze issues in quite different ways than their peers, with a focus on costs, benefits, incentives, and ceteris paribus ("all else equal") analysis that holds other factors constant. This often entails developing formal models - both graphically and algebraically - that explain the world around us. This course will focus on how public policy can be used to improve the well-being of individuals and firms and promote economic growth.

Economic analysis is often used, and perhaps more often misused, when discussing social and political issues. Thus, understanding basic economic principles is a critical component of being an informed citizen that contributes to society. This course places a strong emphasis on critical thinking and will hopefully change the way students analyze seemingly noneconomic issues that arise in their everyday lives. A solid foundation in economics has become an important asset for careers in law, journalism, public policy, medicine, education, international relations, business and many other areas.

For many students, economics will be an entirely new way of looking at issues. Some students will find this thought process intuitive, while others may struggle with the concepts or resist this new way of thinking. If you find yourself questioning or struggling with the material I encourage you to work with other students in the class or stop by my office hours so that we can discuss the issues in more detail!

## Required Materials

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Jonathan Gruber, *Public Finance and Public Policy*, 6th Edition

## Course Requirements

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Your grade will be determined as follows:

| Component         | Percentage |
|-------------------|------------|
| Policy Briefs     | 20%        |
| Midterm Exam      | 20%        |
| Final Exam        | 20%        |
| Participation     | 15%        |
| Problem Sets      | 15%        |
| Reading Responses | 10%        |

There will *likely* be an (as yet undetermined) curve for the course. If a curve is implemented at the conclusion of the course, it will *only* positively affect your grade (i.e. your percentage grade will not drop due to the curve). I prefer to grade strictly in order to create a grade distribution with a large variance, which I can then modify with a curve as I see fit.

## Policy Briefs

Students must write a policy brief arguing for a particular position on two of the following topics. The purpose of these assignments is to apply the economic analyses we learn in class to an issue that does not have a correct answer, which will improve students' critical thinking skills and encourage them to develop convincing evidence-based arguments.

A separate rubric will be provided outlining the specific requirements of the policy briefs.

Topics:

1. The federal government should implement a carbon tax or cap and trade scheme for carbon emissions.
2. Lexington and Rockbridge County should implement a school voucher system for K-12 education.
3. State and federal government should make all public colleges free.
4. The federal government should implement universal healthcare.
5. The federal government should expand the Earned Income Tax Credit and reduce the Supplemental Nutrition Assistance Program and Temporary Assistance for Needy Families program.
6. The federal government should implement tax reform eliminating corporate taxes and increasing high-income and equity taxes.
7. The federal government should tax wealth.

## Exams

There will be a midterm and final exam. The dates and times of these exams are as follows:

Midterm Exam: Tuesday, February 18th in class

Final Exam: During exam week

As with our instruction time, phones, tablets, and computers are absolutely banned from being visible during exams. They must be turned off and placed in your backpack for the duration of the exam. In particular, this means that phones cannot be on top of your desk or in your hands when using the restroom. Any student with technology visible during the exam will be in violation of this policy.

## Final Exam

The final exam will be administered through the Williams School during exam week.

## Participation

There are three components to the participation score:

1. Ask questions and contribute to discussions, keeping in mind that others may share your confusion or learn from your insights. Asking questions is a positive externality, as the answers to those questions become a public good that all students in the class can benefit from. Questions and contributions to Piazza will also contribute towards your participation grade. This is the most important determinant of your participation grade.
2. I ask that all students be mindful during our one hour class period. While I encourage students to practice mindfulness in the other aspects of their life, I only require it for three hours of each week. The purpose of our class time is to learn economics, and I ask students to give their undivided attention. In particular, this means not using phones, tablets, or computers during class. If I see your phone (i.e. it's on the table) even if you're not using it, then note that you will be losing participation points. You may even be surprised to notice that you enjoy the reduced anxiety from not constantly checking notifications.
3. Respect your fellow students by behaving professionally. This includes arriving on time, not leaving class unnecessarily, and, in particular, not using phones, tablets, or computers. I list this twice because phones, tablets, and computers are not only a distraction to those who use them but also to everyone else around them. Note that if I see your phone, tablet, or computer, I will oblige you to internalize the negative externality by reducing your participation score.

If you are sick or must miss class for an academic activity I will excuse the absence, but you must send me an email *before* the class for which you will be absent in order for me to excuse the absence.

## Problem Sets

Students will be assigned problem sets related to the course material. The purpose of the assignments is for students to better understand the material, as students often believe they understand a topic until they are asked to utilize that knowledge in practice. Given the purpose of the assignments, I will accept late assignments one day after their due date for a 50 percentage point reduction. For example, if an assignment is due on February 1st and a student completes the assignment by February 2nd with a score of 80%, then they will receive a score of 30% for the assignment. I will also drop the lowest assignment score.

While each student must turn in an individual copy, I strongly encourage students to work together on the problem sets. Different students will have different comparative advantages, and teaching a concept to others is one of the best ways to master the material. Please keep in mind that working together involves collaboration, so students should not be simply giving answers to others in order to complete a problem.

## **Reading Responses**

Students will be required to complete reading responses to a select number of readings throughout the term. The purpose of the reading responses is to provide an incentive for you to complete the reading and to stimulate class discussions. I will provide a template for the reading responses. Responses will include a brief summary of the paper, interpretation of main results, and questions or comments that you are willing to raise in class that will contribute to the class discussion. These questions and comments may include concerns about the paper's model, results, or interpretations as well as additional research questions.

Responses will be graded on an "exceeds standards", "meets standards", and "below standards" scale. Responses that include a clear and concise summary of the major points of the paper, a deep understanding of the strengths and weaknesses of the analysis, and exceptional questions that reflect careful consideration of the reading will receive an "exceeds standards". Responses that reflect a careful reading of the paper and some level of reflection will receive a "meets standards", and responses that include simplistic questions that suggest only cursory coverage of the material will receive a "below standards". Reading responses are due at the start of the class period. They will not be accepted if you are late to class without an approved excuse.

## **Honor System**

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I expect students to follow the honor system with regard to all coursework and exams. You are not allowed to use any answer keys to complete assignments. Phones, tablets, and computers must be turned off and placed in your backpack for the duration of the exam. In particular, this means that phones cannot be on top of your desk or in your hands when using the restroom. However, I encourage students to collaborate both when working on assignments and studying for exams. One of the best ways to master a topic is to teach it to someone who doesn't understand it.

## **Academic Accommodations**

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I am committed to ensuring access to course content for all students. Reasonable accommodations are available for students with disabilities. Contact Lauren Kozak, Title IX Coordinator and Director of Disability Resources, to confidentially discuss your needs and the accommodation process. More information can be found at: <https://www.wlu.edu/disability-accommodations/undergraduate-accommodations>.

If you have already been approved for accommodations, please meet with me within the first two weeks of the term so we can develop an implementation plan together. It is important to meet as early in the term as possible; this will ensure that your accommodations are implemented early on. If you have accommodations for test-taking, please remember that arrangements must be made at least a week before the date of the test or exam.

## Topic List

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- (Gruber Chapter 1) Why Study Public Finance?
  - What is the objective of policymakers?
  
- (Gruber Chapter 2) Fundamentals of Welfare Economics
  - Utility and Indifference Curves
  - Budget Constraints
  - Edgeworth Boxes
  - Pareto Efficiency
  - Possibilities Frontiers
  - Perfect Competition
  - Benevolent Social Planner
  - First and Second Theorems of Welfare Economics
  
- Market Failure
  - (Gruber Chapter 5) Externalities
    - Chay, Kenneth Y., and Michael Greenstone. "Does air quality matter? Evidence from the housing market." *Journal of political Economy* 113.2 (2005): 376-424.
  
  - (Gruber Chapter 5) Coasian Bargaining
    - Barro, Josh. "Don't Want Me to Recline My Airline Seat? You Can Pay Me." *New York Times*. August 27, 2014.
  
  - (Gruber Chapter 5) Pigouvian Taxes
    - "How to design carbon taxes." *The Economist*. August 18th 2018.
    - Bovenberg, A. Lans, and Lawrence H. Goulder. "Environmental taxation and regulation." *Handbook of public economics*. Vol. 3. Elsevier, 2002. 1471-1545.
      - Pages 1471-1477, 1490-1494, 1513-1523, 1530-1540

- (Gruber Chapter 5) Cap and Trade
  - Morgenstern, Richard D. "Reducing carbon emissions and limiting costs." Resources for the Future (2002): 1-11.
  - "An Evaluation of Cap-and-Trade Programs for Reduction of US Carbon Emissions." Congressional Budget Office. June 2001.
  - "ETS, RIP?" The Economist. April 20, 2013.
- (Gruber Chapter 6) Climate Change
- (Gruber Chapter 7) Public Goods
  - ["Economists On Federal Funding For NPR"](#)
- (Gruber Chapter 7) Samuelson Condition
- (Gruber Chapter 9) Political Economy
- (Gruber Chapter 11) K-12 Education
  - Hanushek, Eric A. "Publicly provided education." Handbook of public economics 4 (2002): 2045-2141.
  - Urquiola, Miguel. "Competition among schools: Traditional public and private schools." Handbook of the Economics of Education. Vol. 5. Elsevier, 2016. 209-237.
- (Gruber Chapter 11) Higher Education
- (Gruber Chapter 11) Pell Grants
- Expenditures
  - (Gruber Chapters 15-16) Healthcare
    - Cutler, David M. "Health care and the public sector." Handbook of public economics 4 (2002): 2143-2243.
  - (Gruber Chapter 17) Welfare
    - Moffitt, Robert A. "Welfare programs and labor supply." Handbook of Public Economics 4 (2002): 2393-2430.
  - (Gruber Chapter 17) Temporary Assistance for Needy Families, Supplemental Nutrition Assistance Program, Women and Infant Children
  - (Gruber Chapter 17) Earned Income Tax Credit
  - (Gruber Chapter 17) Head Start
    - Ludwig, Jens and Deborah A. Phillips (2007) "The Benefits and Costs of Head Start." Society for Research on Child Development, Social Policy Report. Volume XXI, Number 3.
  - (Gruber Chapter 13) Social Security
- Taxation

- (Gruber Chapter 18) Consumption Tax
- (Gruber Chapter 18) Lump Sum Tax
- (Gruber Chapter 18) Income Tax
- (Gruber Chapter 19) Equity
- (Gruber Chapter 20) Efficiency
- (Gruber Chapter 25) Tax Reform
  - Kopczuk, Wojciech. "Taxation of intergenerational transfers and wealth." Handbook of public economics. Vol. 5. Elsevier, 2013. 329-390.