Rosen, Public Finance, 7th ed.

COURSE PREREQUISITES: 36-204 and 36-206 with a grade of "C" or above.

COURSE OBJECTIVES: This course will examine the application of economic principles to government policies, directed at attaining the twin goals of equity and efficiency. By the end of the course, you will be able to:

A. Define and measure equity and efficiency.
B. Determine the equity and efficiency of any governmental policy, and describe how the policy might be altered to better attain either goal.

WEEK       TOPIC                        TEXT CHAPTERS  
1 Feb 2-4   Introduction; Positive Analysis    Ch. 1-2  
2 Feb 9-11  Market Efficiency                 Appendix  
3 Feb 16-18 Market Efficiency cont’d.         
4 Feb 23-25 Normative Analysis                Ch. 3, 7  
5 Mar 2-4   Public Goods                     Ch. 4     
6 Mar 9-11  Externalities, Exam 1            Ch. 5     
7 Mar 16-18 Tax Incidence                    Ch. 12    
8 Mar 30-Apr 1 Taxes & Efficiency            Ch. 13    
9 Apr 6-8   Taxes and Behavior               Ch. 16    
10 Apr 13-15 Exam 2                          
11 Apr 20-23 Second Best & Optimal Taxation   Ch 13 App, Ch. 14  
12 Apr 27-29 Income vs. Consumption Taxes     Ch. 19    
13 May 4-6  Personal Inc. Tax                 Ch. 15    
14 May 11-13 TEST 3                         

EVALUATION:
Three tests will be administered; accounting for roughly 75% of your grade. The tests will be essay, short essay, graphing, and T/F. Tentative dates are:

Midterm 1  (25%)  Wednesday, Mar. 11
Midterm 2  (25%)  Wednesday, Apr. 15
Final      (25%)  Wednesday, May 13

An additional roughly 15% of your grade will be based on a policy review of any tax policy issue you choose. You must write a short (3-5 page) discussion of any policy issue addressed in the National Tax Journal (available in Polk Library). The paper must cite at least 3 articles dealing with the issue, must summarize in your own words the authors’ findings, and draw some appropriate normative policy conclusions (“We should therefore adopt these changes in …”).

The appropriate due dates are:
Monday, Mar 16:     Title of paper and references due.
Wednesday, Apr 29:  Paper due.

The remaining roughly 10% of your grade will be based on class attendance.
Midterm 1: Objectives

For the 1st exam you should:
1. Know how to distinguish between normative and positive statements.
2. Know how to locate budget lines, indifference curves, consumer equilibria, and derive demand curves.
3. Know what Pareto efficiency is, what the 3 types of efficiency are, the conditions needed for each type of efficiency to occur, and how under ideal circumstances prices lead to each type of efficiency.
4. Know what the various types of market failure are, and why.
5. Know the Benthamite and Rawlsian arguments for income redistribution.
6. Know how to identify public goods, and distinguish between public and private goods, and know why private market provision of public goods is usually unsatisfactory.
7. Know what constitutes an externality, why externalities lead to market failure, and the advantages and disadvantages of the various government solutions to these market failures.

Midterm 2: Objectives

For the 2nd exam you should be able to:
1. Distinguish between ability to pay (as a basis for "fair" taxation) versus the benefit principle.
2. Distinguish between horizontal equity and vertical equity.
3. Compare annual and lifetime measures of ability to pay.
4. Show the incidence of an excise tax.
5. Describe the incidence of a broad based sales tax (i.e. levied on most but not all consumption).
6. Describe the incidence of a capital income tax (levied on one sector, or in one country).
7. Identify the income and substitution effects of a partial consumption tax (i.e. levied on some consumer goods).
8. Locate and distinguish between normal and compensated demand curves.
9. Identify the income and substitution effects of a labor or capital income tax.
10. Locate normal and compensated labor or savings supply.
11. Measure the deadweight loss of any tax.
12. Compare the substitution effects of proportional and progressive taxes.
13. Describe what makes a tax more or less efficient.
14. Describe what we know empirically about labor and savings supply.
15. Describe how a tax on investment income affects risk taking behavior.
16. Depict the deadweight loss due to taxing production inputs differently.
Final Exam: Objectives

For the final exam you should be able to:

1. Identify income and substitution effects; locate normal and compensated demand curves.
2. Explain how the rules of First Best and Second Best differ.
3. Compare progressive, proportional, and regressive taxes in terms of vertical equity and efficiency.
4. Compare income and consumption taxes in terms of vertical equity and efficiency.
5. Distinguish between the different types of consumption taxes.
6. Evaluate whether our income tax conforms to the Haig-Simon definition of income.
7. Describe how various forms of income should be treated differently under income versus consumption taxation.
8. Distinguish between accrual taxation and taxation upon realization; determine which is ideal under income taxation or consumption taxation.
10. Describe the effects of taxing some forms of capital income differently from other forms.