



The Paul H. Nitze
School of Advanced
International Studies
Washington, D.C.

JOHNS HOPKINS
UNIVERSITY

SA.310.754: PUBLIC FINANCE & COST BENEFIT ANALYSIS

Professor Jason J. Fichtner

Spring 2017

General Course Information:

Room: Bernstein Offit Building (BOB), Room 407
Day and Time: Mondays, 9:30 am – 12:00 pm

Instructor's Email: Jason.Fichtner@jhu.edu or jjfichtner@gmail.com
Office Hours: After class, or by appointment

Teaching Assistant: Rachel Snyderman
TA's Email: rsnyde26@jhu.edu or Rachel.Snyderman@gmail.com
Office Hours: Thursdays, 7:00 pm – 9:00 pm in the SAIS Café, or by appointment

This course will introduce the key concepts in public finance and cost benefit analysis. From a public finance perspective, this course will cover the theories and concepts that underpin most discussions of public policy on the role and financing of the government sector, including public goods (both national and global), externalities and market failure, tax policy, social welfare economics, market structure, monetary and fiscal policy. From a cost benefit analysis perspective, this course will cover the techniques used to evaluate public policies and programs in health care, transportation and infrastructure, international aid and development, education, and environmental issues. We will then place cost benefit within the broader public finance framework. Using these concepts, the course will highlight some of the challenging real world public policy issues confronting governments in different parts of the world. Students will learn how to develop and apply cost benefit analysis techniques to the evaluation of public policies.

Public policy decisions require difficult trade-offs; there is no such thing as a free lunch. Hence, the course will use specific policy areas as examples to provide students with the concepts and tools of public finance and cost benefit analysis necessary to analyze the role of government intervention, its justification, opportunity costs, and implications for efficiency, fairness and effectiveness.

One of the main objectives of this course is to provide students with a purposeful mix of practice and theory. Students have to keep one foot in the world of practice and the other in the world of academic theory. You must become “pracademics.” Hence, class readings and discussions will revolve around economic concepts, tools and skills used in economic policy analysis and implementation. If available, guest speakers will occasionally visit to provide a practitioner’s viewpoint on how things work “in the real world.”

This course is directly relevant for students who intend to pursue a career in the public sector or with private consulting firms that work with public sector organizations and require grounding in the concepts and skills of public finance and cost benefit analysis in order to be both good producers of analysis and good consumers of analysis. Class will be two and one-half hours of lectures per week, and students are expected to attend class and contribute to the learning effort within classes, both by presenting and giving their views.

EXPECTATIONS

- You are expected to act with the highest professional ethics and skill.
- You are expected to complete all of the readings in advance of each class, and to be prepared to discuss them as well as your own experiences and insights.
- You are expected to adhere to the Johns Hopkins University Honor Code. For all written course assignments please provide citations for all outside sources for the ideas in your assignments. Copying, cheating or plagiarism will not be tolerated.
- Students are expected to attend all class meetings and participate in class discussions. If you have an important reason to miss a class or delay an assignment, and you let me know in advance, I will work to accommodate your situation. Important reasons involve major unexpected family or personal challenges and events (e.g. death in the family, severe illness, etc.).
- Even if you miss class, assignments are still due on time.
- Late assignments will be marked down **at least** 1/3rd of a letter grade.
- I have an open-door policy. Please do not hesitate to see me if you have any questions, concerns, comments, etc.

READINGS

The following textbook will be used in the class:

Required:

(1) Harvey S. Rosen and Ted Gayer, *Public Finance*, 10th Edition (McGraw-Hill, 2014).

**(2) Edward M. Gramlich, *A Guide to Benefit-Cost Analysis*, 2nd Edition (Waveland Press, 1997).
This book is out of print but available both new and used through online book sellers.**

Both textbooks are also on reserve in the library.

Since the textbooks are U.S.-focused, additional readings are assigned to provide a global perspective. I will also provide actual cost-benefit analyses throughout the course that we will analyze to compliment the policy topics we'll be discussing. These readings will either be available from the electronic reserves in the SAIS library, online, via Blackboard or provided by the instructor. I reserve the right to hand out additional readings or current news articles to supplement the core readings and add to the class discussions – and in fact will do so.

ASSIGNMENTS

Issue of the Day

Please read the major newspapers and come to class ready to bring up interesting and relevant topics. Every day in the newspapers there are lots of stories that apply public finance and economic analysis to the discussion and debate of public policy issues. You are also encouraged to read the op-ed pages, as often they touch upon these issues as well. At the beginning of each class, I will solicit topics from the class and we will hold a brief (10-15 minutes) discussion session. This will be considered part of your overall class participation grade.

Homework Problem Set Assignments

Over the course of the semester, there will be **three (3)** homework problem set assignments. Students will have two weeks to work on each homework problem set. Students will be expected to hand in a hard copy of the homework at the beginning of class on the date due. **If a student will be absent from class and has notified the professor before class, a hard copy can be placed in the TA mailbox by an agreed upon time.**

Policy Memorandums

To be successful professionally you need to write well. To improve your writing skills, you will write **two** one-page policy memos in which you make a policy recommendation based on a newspaper article and justify your position based on the economic concepts from the course. Choose an article from a major newspaper or periodical related to a public policy issue and use the public finance and cost benefit analysis concepts discussed in this course to analyze the article. This is a policy memo – write in a narrative format. Don't just give me bullet points. Your assignment will be graded based on the quality of your analysis and the quality of your writing. Policy memos may be no longer than one page (single-spaced). Also, include a copy of the article used for the assignment with your finished paper. Please adhere to the space constraint and proofread carefully. Please use the following file name format for your policy memorandums: **Last Name_Date.docx**.

The first policy memo is due: **February 27, 2017**

The second policy memo is due: **April 10, 2017**

Group Presentation

There is no mid-term or final exam for the course. However, a group PowerPoint presentation dealing with the course material and concepts is required. The group presentation assignment will be handed out and discussed during the **March 27** class. Teams will consist of 3 – 5 people (depending on total class size). Presentations will be due and given in class on **May 1**.

Note: Paper copies of all homework assignments are due at the beginning of class. Policy Memorandums are to be delivered via email in a Word document format to both the Professor and the TA at Jason.Fichtner@jhu.edu and rsnyde26@jhu.edu. Again, please use the following file name format for your policy memorandums: **Last Name_Date.docx**.

GRADES

Grades will be based on the following contributions:

| | |
|---------------------------------------|------------|
| Homework Problem Set Assignments | 20 percent |
| Policy Memo #1 | 20 percent |
| Policy Memo #2 | 20 percent |
| Group PowerPoint Team Presentation | 20 percent |
| Participation (attendance & in-class) | 20 percent |

Grades will be assigned according to the following scale:

| | |
|--------|------|
| 93-100 | = A |
| 90-92 | = A- |
| 87-89 | = B+ |
| 83-86 | = B |
| 80-82 | = B- |
| 70-79 | = C |
| < 70.0 | = F |

I do not grade on a Bell Curve – I expect all students to commit to performing at a B level or better.

Summary of Course Assignments, Activities and Due Dates:

| <u>Item</u> | <u>Due Date</u> |
|---------------------------------------|---|
| Homework Problem Set Assignments | February 20 th , March 27 th & April 24 th |
| Policy Memo #1 | February 27 th |
| Policy Memo #2 | April 10 th |
| Handout Group Presentation Assignment | March 27 th |
| Group Presentations | May 1 st |

Course Schedule, Topics, Readings, and Activities

January 30 and February 6 ***(Problem Set #1 Assigned February 6)***

CLASS INTRODUCTION & OVERVIEW

INTRODUCTION TO PUBLIC FINANCE & THE ROLE OF GOVERNMENT

Required Readings:

1. Rosen/Gayer, Chapters 1 - 5;
2. Gramlich, Chapters 1 -2;
3. Gramlich – “The Methodology of Benefit-Cost Analysis,” Speech at Western Michigan University, October 16, 2002. Available online:
<http://www.federalreserve.gov/boarddocs/speeches/2002/200210163/default.htm>
4. R. Coase, “The Problems of Social Cost,” *Journal of Law and Economics*, Vol. (1960), pp. 1-44.
5. Gordon Tullock, “The Transitional Gains Trap,” *The Bell Journal of Economics*, Vol. 6, No. 2, 1975.

February 13

FUNDAMENTAL PRINCIPLES OF COST BENEFIT ANALYSIS

Required Readings:

1. Gramlich, Chapters 3
2. Rosen/Gayer, Chapter 8
3. OMB Circular A-4. Available online: http://www.whitehouse.gov/omb/circulars_a004_a-4

February 20 ***(Problem Set #1 Due)***

VALUATION OF COSTS AND BENEFITS

Required Readings:

1. Gramlich, Chapters 4 - 6
2. Rosen/Gayer, Chapter 8 (continued from last week)
3. New Zealand Treasury, “Cost Benefit Analysis Primer,” 2005. Available online:
<http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis/primer>

February 27

INTERNATIONAL AID, DEVELOPMENT & FOSTERING ECONOMIC GROWTH

Required Readings:

1. Gramlich, Chapters 7 – 8
2. Freakonomics – “Fixing the World, Bang-for-the-Buck Edition.” October 2, 2014. Audio available online: <http://freakonomics.com/2014/10/02/fixing-the-world-bang-for-the-buck-edition-a-new-freakonomics-radio-podcast/> and transcript: <http://freakonomics.com/2014/10/02/108967/>
3. S. Paternostro, A. Rajaram and E. Tiongson, “How Does the Composition of Public Spending Matter?” *Oxford Development Studies*, Vol. 35, No. 1 (March 2007).
4. World Bank, “On the Marriage Between Public Spending and Growth: What Else Do We Know?” PREM Notes; Economic Policy No. 13-. March 2009
5. D. Leonhardt, “MIT economists help their profession get its groove back,” *International Herald Tribune*, February 19, 2008
(<http://www.nytimes.com/2008/02/19/business/worldbusiness/19iht-view.4.10196664.html>)
6. P. Atkinson and P. van den Noord, Managing Public Expenditure: Some Emerging Policy Issues and a Framework for Analysis, *OECD Economics Department Working Papers No. 285*.
7. World Bank, *Fiscal Policy for Growth and Development* - Paper presented to Development Committee, March 28, 2007, on Development Committee website - <http://siteresources.worldbank.org/INTPEAM/Resources/DC2007-0004%28E%29-FiscalPolicy.pdf>
8. T.Henckel and W. McKibbin: “The Economics of Infrastructure in a Globalized World: Issues, Lessons, and Future Challenges,” (Brookings Institution, June 2010)
9. N. Budina, H. Polackova Bixi, and T. Irwin, Public–Private Partnerships in the New EU Member States: Managing Fiscal Risks - World Bank, 2007, available on the web - <https://openknowledge.worldbank.org/bitstream/handle/10986/6743/405580ECA0Part1LIC0disclosed0Aug271.pdf>
10. A. Estache, A. Gomez-Lubo, and D. Leipziger, “Utilities Privatization and the Poor: Lessons and Evidence from Latin America,” *World Development*, Vol. 29, No. 7 (2001), pp. 1179-98.
11. N. Birdsall and J. Nellis, “Winners and Losers: Assessing the Distributional Impact of Privatization,” *World Development*, Vol. 31, No. 10 (2003), pp. 1617-1633.

March 6 and March 13

(Problem Set #2 Assigned March 13)

TRANSPORTATION & ENVIRONMENTAL REGULATION

Required Readings:

1. Gramlich, Chapters 10 & 12
2. *The Economics of Climate Change: The Stern Review* (UK HM Treasury, 2007), chapter 2.
3. NPR Planet Money, “Putting a Price Tag on Your Descendants,” July 20, 2012. Available online: <http://www.npr.org/blogs/money/2012/07/20/157105414/episode-388-putting-a-price-tag-on-your-descendants>
4. US DOT NHTSA, “Corporate Average Fuel Economy for MY 2011 – 2015 Passenger Cars and Light Trucks,” Preliminary Regulatory Impact Analysis, April 2008. Available online: [http://www.nhtsa.gov/DOT/NHTSA/Rulemaking/Rules/Associated Files/CAFE_2008 PRIA.pdf](http://www.nhtsa.gov/DOT/NHTSA/Rulemaking/Rules/Associated%20Files/CAFE_2008_PRIA.pdf)
5. California High Speed Rail Authority, “Economic Impact Analysis Report,” April 2012. Available online: www.hsr.ca.gov/docs/about/business_plans/BPlan_2012EIR.pdf
6. California High Speed Rail Authority, “2014 California High-Speed Rail Benefit-Cost Analysis,” April 2014. Available online: http://www.hsr.ca.gov/docs/about/business_plans/BPlan_2014_Sec_7_CaHSR_Benefit_Cost_Analysis.pdf

March 27 **(Problem Set #2 Due)**

EDUCATION

Required Readings:

1. Rosen/Gayer, Chapter 7
2. Gramlich, Chapter 9
3. S. Baum and M. McPherson, “Is Education a Public Good or a Private Good?” *The Chronicle of Higher Education*, January 18, 2011.
<http://chronicle.com/blogs/innovations/is-education-a-public-good-or-a-private-good/28329>
4. Articles by J. Cohen and D. Bloom, N. Barr and E. Hanushek on education in *Finance and Development*, (June 2005, Vol. 42, No. 2)

April 3

HEALTH CARE

Required Readings:

1. Rosen/Gayer, Chapters 9 & 10
2. S. Brill, “Bitter Pill: Why Medical Bills Are Killing Us,” *Time Magazine*. February 20, 2013.
3. D. Bloom, D. Canning and D. Jamison, “Health, Wealth, and Welfare,” *Finance and Development*, (March, 2004), pp. 10-15.
4. D. Filmer, J. Hammer, and L. Pritchett, “Weak Links in the Chain II: A Prescription for Health Policy in Poor Countries,” in *World Bank Research Observer*, Vol. 17, No. 1 (2002), pp. 47-66

April 10 **(Problem Set #3 Assigned)**

SOCIAL INSURANCE AND SOCIAL SAFETY NETS

Required Readings:

1. Rosen/Gayer, Chapters 11 - 13
2. N. Barr, [*"The Pension Puzzle: Prerequisites and Policy Choices in Pension Design,"*](#) Economic Issues No. 29, (Washington: International Monetary Fund, 2002).
3. Articles by A. Turner and by G. Carone and D. Costello in *Finance and Development*, (Sept. 2006, Vol. 43, No. 3)

April 17

UNDERSTANDING TAX POLICY & FRAMEWORK FOR TAX ANALYSIS

Required Readings:

1. Rosen/Gayer, Chapters 14 -19
2. Gramlich, Chapter 11
3. T. Besley, and T. Persson, “Why Do Developing Countries Tax So Little?” *Journal of Economic Perspectives* (Fall 2014), Vol. 28, No. 4. p. 99-120.
4. H. Kleven, “How Can Scandinavians Tax So Much?” *Journal of Economic Perspectives* (Fall 2014), Vol. 28, No. 4. p. 77-98.
5. V. Tanzi, and H. Zee, 2000, “Tax Policy for Emerging Markets: Developing Countries,” *National Tax Journal* (June 2000), Vol. 53, No. 2. p. 299

6. R. Bird and E. Zolt, *An Introduction to the Design and Development of Tax Policy in Developing and Transitional Countries* (2006) World Bank on web:
<http://www1.worldbank.org/publicsector/pe/pfma07/ModuleRevised.doc>
7. R. Bird and E. Zolt, *Taxation, Inequality and Fiscal Contracting in the Americas*. August 2013.
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2321868

April 24

(Problem Set #3 Due)

DEFICIT FINANCING & TAX REFORM

Required Readings:

1. Rosen/Gayer, Chapters 20 - 21
2. Robert E. Hall and Alvin Rabushka, "The Flat Tax." 2007. All chapters available online in pdf at:
<http://www.hoover.org/publications/books/8329> (Just ***Review*** the book)
3. R. Carroll and A. Viard, "Value Added Tax: Basic Concepts and Unresolved Issues," Tax Notes. March 1, 2010.
4. Bill Gale and Andrew Samwick, "Effects of Income Tax Changes on Economic Growth," Brookings Institution. September 2014.
<http://www.brookings.edu/research/papers/2014/09/09-effects-income-tax-changes-economic-growth-gale-samwick>

May 1

GROUP PRESENTATIONS, SUMMARY & CONCLUSIONS

Required Readings:

1. Gramlich, Chapter 13