



# PPOL-503-20: PUBLIC FINANCE

**Professor Jason J. Fichtner**  
**Summer 2013**

**General Course Information:**

Room: Healy Hall, Room 106  
Day and Time: Monday & Wednesday, 6:00 pm – 9:10 pm  
Instructor's Email: [jjf8@georgetown.edu](mailto:jjf8@georgetown.edu) or [jjfichtner@gmail.com](mailto:jjfichtner@gmail.com)  
Office Hours: After class, or by appointment

Teaching Assistant: Kim Dancy  
TA's Email: [kbd32@georgetown.edu](mailto:kbd32@georgetown.edu) or [kimberly.dancy@gmail.com](mailto:kimberly.dancy@gmail.com)  
Office Hours: TBD or by appointment

This course will introduce the key concepts in public finance 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. Using these concepts, the course will highlight some of the challenging real world public policy issues confronting governments in different parts of the world. The course will also seek to examine the specific public finance challenges faced by developing and emerging market countries. These economic principles will be studied in detail to understand the application of public finance concepts to public policy analysis. The course will use specific policy areas as examples to provide students with the concepts and tools of public finance necessary to analyze the role of government intervention, its justification, and implications for efficiency and fairness.

Class will be three hours of lecture, twice per week, and students are expected to contribute to the learning effort within classes, both by presenting and giving their views. The instructor will review basic economic principles and quantitative methods before assuming that students understand the concepts.

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.

## 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 Georgetown 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.).
- If you miss more than 3 classes, you will not get credit for the course.
- Even if you miss class, assignments are still due on time.
- Late assignments will be marked down **at least** 1/3<sup>rd</sup> of a letter grade.
- I have an open-door policy. Please do not hesitate to see me or the TA if you have any questions, concerns, comments, etc.

## READINGS

The following textbook will be used in the class:

### **Required:**

**Harvey S. Rosen and Ted Gayer, *Public Finance*, 9th Edition (McGraw-Hill, 2010).**

The textbook is available at the Georgetown bookstore and also can be purchased on-line from stores such as Amazon.com or Barnesandnoble.com. Make sure to shop around for the best price.

Since the textbook is U.S.-focused, additional readings are assigned to provide a connection to contemporary issues in public finance and public policy, as well as a global perspective. These readings are available on Blackboard or online and noted in the syllabus under each class date. The TA and I both reserve the right to hand out additional readings or current news articles to supplement the core readings and add to the class discussions.

## 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 Sets**

There are three homework problems sets, plus one budget exercise, for the course. Each homework assignment will be given out during a Monday class session (dates listed below in the syllabus) and due by the start of class the following Monday. Students will be expected to hand in a hard copy. If students are to be absent for a class, they can scan into a pdf and email it to the TA by the start of class.

## Mid-Term Examination

There is a one-hour mid-term examination for the course. The mid-term will be given at the beginning of class on **Monday, July 22<sup>nd</sup>** and will cover the reading and material presented in the course through the July 17<sup>th</sup> class.

## Final Examination

There will be an in-class three hour final examination given on the last day of class, **Wednesday, August 7** and will cover the reading and material presented throughout the entire course.

## GRADES

Grades will be based on the following contributions:

Participation (attendance & in-class)	20 percent
Homework Problem Sets	25 percent
Mid-Term Exam	25 percent
Final Exam	30 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 – All students are expected to perform at B level or above.

## **Summary of Course Assignments, Activities and Due Dates:**

<b><u>Item</u></b>	<b><u>Due Date</u></b>
Homework Problem Sets	July 8 <sup>th</sup> , July 15 <sup>th</sup> , July 29 <sup>th</sup> & August 5 <sup>th</sup>
Mid-Term Examination	July 22 <sup>nd</sup>
Final Examination	August 7 <sup>th</sup>

## Course Schedule, Topics, Readings, and Activities

### July 1 and July 3

CLASS INTRODUCTION & OVERVIEW

INTRODUCTION TO PUBLIC FINANCE & THE ROLE OF GOVERNMENT

#### **Required Readings:**

1. Rosen/Gayer, Chapters 1 -5;
2. V. Tanzi and L. Schuknecht, "[\*Reconsidering the Fiscal Role of Government: The International Perspective.\*](#)" American Economic Review, Papers and Proceedings of the Hundred and Fourth Annual Meeting of the American Economic Association, Vol. 87 (May, 1997), pp.164-168
3. *The Economics of Climate Change: The Stern Review* (UK HM Treasury, 2007), chapter 2 and also pp. 419-421.
4. R. Barro, "Government Spending in a Simple Model of Endogenous Growth," *Journal of Political Economy*, Vol. 98, No. 5, pp. S103-S125 (1990)
5. R. Coase, "The Problems of Social Cost," *Journal of Law and Economics*, Vol. (1960), pp. 1-44.

**Homework #1 - Problem Set** (assignment to be discussed in class on July 1<sup>st</sup> and **due July 8<sup>th</sup>**):

#### **Sources:**

1. *NY Times*, "Budget Puzzle: You Fix the Budget" (November 13, 2010) – <http://www.nytimes.com/interactive/2010/11/13/weekinreview/deficits-graphic.html>
2. The White House: *The National Commission on Fiscal Responsibility and Reform: The Moment of Truth* (December 2010)
3. Bipartisan Policy Center: *Restoring America's Future* (December 2010)

### July 8

EVALUATING & ASSESSING PUBLIC EXPENDITURES: COST BENEFIT ANALYSIS, PUBLIC EXPENDITURE REVIEWS & RANDOMIZED TRIALS

#### **Required Readings:**

1. Rosen/Gayer, Chapter 8
2. S. Paternostro, A. Rajaram and E. Tiongson, "How Does the Composition of Public Spending Matter?" *Oxford Development Studies*, Vol. 35, No. 1 (March 2007).
3. World Bank, "On the Marriage Between Public Spending and Growth: What Else Do We Know?" PREM Notes; Economic Policy No. 13-. March 2009
4. 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>)
5. 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*

## July 10

### PUBLIC PRODUCTION, PUBLIC ENTERPRISES, AND THE ROLE OF GOVERNMENT IN THE PROVISION OF INFRASTRUCTURE AND FOSTERING ECONOMIC GROWTH

#### **Required Readings:**

1. 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>)
2. T. Henckel and W. McKibbin: "The Economics of Infrastructure in a Globalized World: Issues, Lessons, and Future Challenges," (Brookings Institution, June 2010)
3. N. Budina, H. Polackova Brix, and T. Irwin, *Public-Private Partnerships in the New EU Member States: Managing Fiscal Risks* (World Bank, 2007, available on the web - [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2007/08/28/000020953\\_20070828152554/Rendered/PDF/405580ECA0Part1LIC0disclosed0Aug271.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2007/08/28/000020953_20070828152554/Rendered/PDF/405580ECA0Part1LIC0disclosed0Aug271.pdf))
4. 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.
5. N. Birdsall and J. Nellis, "Winners and Losers: Assessing the Distributional Impact of Privatization," *World Development*, Vol. 31, No. 10 (2003), pp. 1617-1633.

## July 15

### 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)

## July 17

### GOVERNMENT AND THE MARKET FOR HEALTH CARE & EDUCATION

#### **Required Readings:**

1. Rosen/Gayer, Chapters 9 & 10
2. D. Bloom, D. Canning and D. Jamison, "Health, Wealth, and Welfare" *Finance and Development* (March, 2004), pp. 10-15.
3. 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
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)

## **July 22 – Mid-Term Examination**

### POLITICAL ECONOMY & PUBLIC CHOICE

#### **Required Readings:**

1. William F. Shughart II, “Public Choice,” The Concise Encyclopedia of Economics.  
<http://www.econlib.org/library/Enc/PublicChoice.html>
2. David R. Henderson, “Rent Seeking,” The Concise Encyclopedia of Economics.  
<http://www.econlib.org/library/Enc/RentSeeking.html>
3. Gordon Tullock, “The Transitional Gains Trap,” *The Bell Journal of Economics*, Vol. 6, No. 2, 1975.

## **July 24**

### WHERE SHOULD GOVERNMENT SPENDING OCCUR?

#### **Required Readings:**

1. Rosen/Gayer, Chapters 22
2. Charles Tiebout, “An Economic Theory of Fiscal Decentralization,” 1961.  
<http://www.nber.org/chapters/c2273.pdf>
3. “Decentralization: Rethinking Government,” chapter 5 in World Bank, *Entering the 21<sup>st</sup> Century: World Development Report, 1999-2000*, pp. 107-124. Available at  
<http://www.worldbank.org/wdr/2000/pdfs/chap5.pdf>
4. Joumard and P. Kongsrud, Fiscal Relations Across Government levels: How can the challenges associated with *fiscal federalism best be addressed?* OECD Economics Department Working Papers No 375 (2003)
5. R. Bird and M. Smart, “Intergovernmental Fiscal Transfers: International Lessons for Developing Countries,” *World Development*, Vol. 30, No.6 (2002), (pp. 899-912)

## **July 29 and July 31**

### UNDERSTANDING TAX POLICY, FRAMEWORK FOR TAX ANALYSIS & DEFICIT FINANCING Instructor PowerPoint Presentation on Federal Tax & Budget Policy

#### **Required Readings:**

1. Rosen/Gayer, Chapters 14 -16 (July 29<sup>th</sup> )
2. Rosen/Gayer, Chapters 17-19 (July 31<sup>st</sup>)
3. Rosen/Gayer, Chapter 20 (July 31<sup>st</sup>)
4. V. Tanzi, and H. Zee, 2000, “Tax Policy for Emerging Markets: Developing Countries,” *National Tax Journal* (June 2000), Vol. 53, No. 2. p. 299
5. 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>)

## **August 5**

### TAX REFORM

#### **Required Readings:**

1. Rosen/Gayer, Chapters 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>
3. R. Carroll and A. Viard, "Value Added Tax: Basic Concepts and Unresolved Issues." Tax Notes. March 1, 2010.

## **August 7**

### FINAL EXAMINATION, SUMMARY & CONCLUSIONS