



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

JOHNS HOPKINS
UNIVERSITY

SA.300.754 SECTION 1: PUBLIC FINANCE

Professor Jason J. Fichtner

Fall 2012

General Course Information:

Room: Rome Building, Room 534
Day and Time: Mondays, 10:15 am – 12:15 pm
Instructor's Email: jjfichtner@gmail.com
Office Hours: After class, or by appointment

Teaching Assistant: Joe Recht
TA's Email: jrecht1@jhu.edu
Office Hours: TBD, After class, 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 two hours of lectures 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 “pracacademics.” 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.”

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 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 JHU 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 global perspective. These readings are available from the electronic reserves in the SAIS library 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 Assignments

Weekly homework assignments will be handed out at the end of class and will be due to the TA at the beginning of the following class. Students will be expected to hand in a hard copy. If students are to be absent for a class, they can place a hard copy into the TA's box in the TA office (Room 753 BOB Building).

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 at least one of the public finance concepts developed in this course to analyze the article. 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. Additional information will be handed out in class.

The first policy memo is due: **October 8, 2012.**

The second policy memo is due: **November 12, 2012.**

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 **November 12** class. Teams will consist of 3 – 5 people. Presentations will be due and given in class on the last scheduled class day, **December 10.**

Note: Paper copies of all assignments need to be handed in by the due date at the beginning of class, as well as delivered via e-mail to jjfichtner@gmail.com.

GRADES

Grades will be based on the following contributions:

Homework 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 – All students are expected to perform at B level or above.

Summary of Course Assignments, Activities and Due Dates:

<u>Item</u>	<u>Due Date</u>
Homework Assignments	Weekly
Policy Memo #1	October 8 th
Policy Memo #2	November 12 th
Handout Group Presentation Assignment	November 12 th
Group Presentations	December 10 th

Course Schedule, Topics, Readings, and Activities

September 10 and September 17

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. Musgrave and P. Musgrave, "Fiscal Functions: *An Overview in Public Finance in Theory and Practice*, ed. by R. Musgrave and P. Musgrave (New York: McGraw-Hill, 5th, ed., 1989).
6. 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 and due September 17th):

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)

September 24

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*

October 1

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)
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.

October 8

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)

October 15

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)

October 22

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.
4. Robert Price, The Political Economy of Fiscal Consolidation, OECD Working Papers No. 776 (May 31, 2010)
5. B. Dorotinsky, Anatomy of the Budget, Sigma Brief No. 1
6. Era Dabla-Norris et-al, "Budget Institutions and Fiscal Performance in Low-Income Countries," IMF Working Paper, WP/10/80

October 29

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 21st 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)

November 5, 12, and 26

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 (November 5th)
2. Rosen/Gayer, Chapters 17-19 (November 12th)
3. Rosen/Gayer, Chapter 20 (November 26th)
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>)

November 19 **NO CLASS – FALL BREAK / THANKSGIVING**

December 3

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. L. Ebrill, M. Keen, J. Bodin, and V. Summers, 2001, *The Modern VAT* (Washington: International Monetary Fund), Chapter 11, pp. 113-124 and Chapter 13-15, pp. 138-165.

December 10

GROUP PRESENTATIONS, SUMMARY & CONCLUSIONS