



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

JOHNS HOPKINS
U N I V E R S I T Y

SA.300.754: PUBLIC FINANCE

Professor Jason J. Fichtner

Spring 2015

General Course Information:

Room: Rome Building, Room 533
Day and Time: Mondays, 2:15 pm – 4:15 pm (Section 1)

Room: Rome Building, Room 102
Day and Time: Mondays, 6:00 pm – 8:00 pm (Section 2)

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

Teaching Assistant: Seethal Kumar
TA's Email: skumar44@jhu.edu
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.

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.”

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.

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*, 10th Edition (McGraw-Hill, 2014).

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, online or via Blackboard 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 – and in fact we 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 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 a student will be absent from class and has notified the professor and TA before class, a hard copy can be placed in the TA's box across from the TA office in 753 BOB 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 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_Section.docx.

The first policy memo is due: **February 23, 2015**

The second policy memo is due: **April 6, 2015**

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 23** class. Teams will consist of 4 – 5 people. Presentations will be due and given in class on **April 27**.

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 skumar44@jhu.edu. Again, please use the following file name format for your policy memorandums: Last Name_Date_Section.docx.

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 – 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 Assignments	Weekly
Policy Memo #1	February 23 rd
Policy Memo #2	April 6 th
Handout Group Presentation Assignment	March 23 rd
Group Presentations	April 27 th

Course Schedule, Topics, Readings, and Activities

January 26 and February 2

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.
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 and **due February 2nd**):

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)

February 9

WHERE SHOULD GOVERNMENT SPENDING OCCUR?

AND A DISCUSSION OF POLITICAL ECONOMY & PUBLIC CHOICE

Required Readings:

1. Rosen/Gayer, Chapters 6 & 22
2. Charles Tiebout, "An Economic Theory of Fiscal Decentralization," 1961. <http://www.nber.org/chapters/c2273.pdf>
3. R. Bird and M. Smart, "Intergovernmental Fiscal Transfers: International Lessons for Developing Countries," *World Development*, Vol. 30, No.6 (2002), (pp. 899-912)
4. Jason Clemens and Niels Veldhuis (Ed.), "Federalism and Fiscal Transfers: Essays on Australia, Germany, Switzerland and the United States." October 2013. (Just ***Review*** the essays) <http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/federalism-and-fiscal-transfers.pdf>

5. Kenya Devolution and Resource Sharing Calculator:
<http://www.brookings.edu/research/interactives/2013/kenya-resource-sharing>
6. William F. Shughart II, "Public Choice," The Concise Encyclopedia of Economics.
<http://www.econlib.org/library/Enc/PublicChoice.html>
7. David R. Henderson, "Rent Seeking," The Concise Encyclopedia of Economics.
<http://www.econlib.org/library/Enc/RentSeeking.html>
8. Gordon Tullock, "The Transitional Gains Trap," *The Bell Journal of Economics*, Vol. 6, No. 2, 1975.

February 16

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*.

February 23

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 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>
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.

March 2

GOVERNMENT AND THE MARKET FOR EDUCATION

Required Readings:

1. Rosen/Gayer, Chapter 7
2. 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>
3. Articles by J. Cohen and D. Bloom, N. Barr and E. Hanushek on education in *Finance and Development*, (June 2005, Vol. 42, No. 2)

March 9

GOVERNMENT AND THE MARKET FOR 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

March 16 NO CLASS – SPRING BREAK

March 23

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)

March 30, April 6, and 13

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 (March 30th)
2. Rosen/Gayer, Chapters 17-19 (April 6th)
3. Rosen/Gayer, Chapter 20 (April 13th)
4. 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.

5. H. Kleven, "How Can Scandinavians Tax So Much?" *Journal of Economic Perspectives* (Fall 2014), Vol. 28, No. 4. p. 77-98.
6. V. Tanzi, and H. Zee, 2000, "Tax Policy for Emerging Markets: Developing Countries," *National Tax Journal* (June 2000), Vol. 53, No. 2. p. 299
7. 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>
8. 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 20

TAX REFORM

Required Readings:

1. Rosen/Gayer, Chapter 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>

April 27

GROUP PRESENTATIONS, SUMMARY & CONCLUSIONS

***** Saturday, February 21st, SAIS Pre-Scheduled Optional Snow Day Make-Up Class *****