

Courtney Coile

Fall 2006

**Economics 310: Public Economics  
Wellesley College**

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Office Hours:  
Tues 2:45-4:15pm  
Thurs 3:30-5:00pm

Course Overview

This course will explore the reasons for government intervention in the economy, the extent of that intervention, and the response of private agents to the government's actions. The goal of the course is to use economic models and research to inform our thinking about public policy issues. A wide range of current issues will be examined, such as privatizing Social Security, extending health insurance to the uninsured, and eliminating the estate tax. While most examples will be drawn from the United States, the lessons from the course are applicable to other countries.

Prerequisites

The prerequisites for the course are Economics 201 and 203, as the theoretical models and empirical research discussed in the course require familiarity with these tools. Unfortunately, it will not be possible to take either of the pre-requisites concurrently with this course, since we will be relying on these tools starting early in the semester.

Readings

The required readings for the course include:

- a) Our textbook, Public Finance and Public Policy by Jonathan Gruber (1<sup>st</sup> edition, 2005), available at the college bookstore.
- b) Articles from economic journals and excerpts from books. These will be made available through the e-reserves section of the course conference. For this type of reading, I will post reading questions on the conference to help you identify the article's key points as you read.
- c) Readings from newspapers or magazines may also be assigned from time to time on an ad hoc basis (e.g., they are not on the syllabus below). These readings will also be made available through e-reserves.

Public economic issues are very frequently in the news, yet we cannot discuss every relevant article in class. Readings from newspapers and magazines that I don't plan to discuss in class but that are still interesting and relevant will be posted in the "in the news" section of the course conference. I strongly encourage you to post articles you find there also. While articles posted on "in the news" are not required reading, I hope that having access to them will deepen your appreciation of the relevance of the material we are learning.

## Course Requirements

There are three requirements for the course:

### 1. Assignments: 30%

The course will feature weekly assignments, due on Fridays. The content of the assignments will vary from week to week, but may include mathematical problems, short answer questions, and/or short essays. You may work on the assignments in groups of up to 3 people; however, each student should turn in her own work. If you work in a group, please indicate who else you worked with on your assignment.

### 2. Final Paper: 20%

For this assignment, you will work in groups of 3 to analyze a public policy question of interest to you that has not been discussed extensively in class. I will work with each group to identify a suitable topic. The paper will explore the reasons for government involvement in this situation and the responses of individuals or firms to the policy, drawing on the existing economic literature. The paper will be 10-12 pages long and each group will make a 15-minute presentation of its paper during the last week of classes.

### 3. Exams: 50%

There will be a midterm (worth 20%) and final exam (worth 30%). The midterm will be given in class and the final will be a regular self-scheduled exam. Both exams are closed book.

### 4. Class Participation

While not formally a part of the final grade, your participation in class discussions of the readings and other material is essential for creating an interesting and intellectually stimulating classroom environment. Class participation may be taken into account if you are on the border between one grade and the next.

## Course conference

You will automatically be subscribed to the course conference and should check it periodically. I will use the course conference to make announcements and post readings, assignments, and other handouts; you can use the conference to communicate with me and with your fellow students

## Syllabus

Tues, Sept 5            Introduction to Public Economics  
Gruber, Chapters 1-3

### I. Taxation

Fri, Sept 8            Commodity Taxes I: Incidence  
Gruber, Chapter 19

Tues, Sept 12        Commodity Taxes II: Efficiency  
Gruber, Chapter 20

Fri, Sept 15        Introduction to Income Taxation  
Gruber, Chapter 18  
Gruber, "The Incidence of Mandated Maternity Benefits"

Tues, Sept 19        Income Taxes & Labor Supply I: Theory  
Gruber, Chapter 21

Fri, Sept 22        Income Taxes & Labor Supply II: Evidence  
Eissa, "Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment"  
NBER Digest, "Changing Work Behavior of Married Women"

Tues, Sept 26        Income Taxes & Savings  
Gruber, Chapter 22  
Duflo et. al., "Savings Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block"

Fri, Sept 29        Taxes on Risk-Taking and Wealth  
Gruber, Chapter 23  
Auten and Cordes, "Policy Watch: Cutting Capital Gains Taxes"  
Gale and Slemrod, "Policy Watch: Death Watch for the Estate Tax?"

Tues, Oct 3        Tax Reform I: Fundamental Tax Reform  
Gruber, Chapter 25  
Slemrod and Bakija, "Taxing Ourselves: A Citizen's Guide to the Great Debate over Tax Reform," Chapter 6

Fri, Oct 6        Tax Reform II: Recommendations of the President's Advisory Panel  
President's Advisory Panel on Tax Reform, "Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System," Executive Summary  
Lazear and Poterba, "Reforming Taxes to Promote Economic Growth"  
Auerback, "The Tax Reform Panel's Report: Mission Accomplished?"  
Burman and Gale, "The Tax Reform Proposals: Some Good Ideas, but Show Me the Money"  
Graetz, "Tax Reform: Time for a Plan C?"

*Tues, Oct 10*                      *Fall Break: No Class*

## **II. Externalities and Public Goods**

Fri, Oct 13                      Externalities I: Theory  
Gruber, Chapter 5

Tues, Oct 17                      Externalities II: Evidence & Valuing Environmental and Human Health Benefits  
Gruber, Chapters 6 and 8  
Schmalensee et. al., “An Interim Evaluation of Sulfur Dioxide Emissions Trading”

Fri, Oct 20                      **MIDTERM**

Tues, Oct 24                      *Tanner Conference: No Class*

Fri, Oct 27                      Public Goods I: Theory  
Gruber, Chapter 7

Tues, Oct 31                      Public Goods II: Evidence  
Payne, “Does the Government Crowd-Out Private Donations? New Evidence  
from a Sample of Non-Profit Firms”

Fri, Nov 3                      Public Goods III: Education  
Gruber, Chapter 11  
Ladd, “School Vouchers: A Critical View”

## **III. Social Insurance and Redistribution**

Tues, Nov 7                      Introduction to Social Insurance I  
Gruber, Chapter 12

Fri, Nov 10                      Introduction to Social Insurance II

Tues, Nov 14                      Health Insurance I: Overview and Theory  
Gruber, Chapter 15  
Manning et. al., “Health Insurance and the Demand for Medical Care: Evidence  
from a Randomized Experiment”

Fri, Nov 17                      Health Insurance II: Covering the Uninsured  
Gruber, Chapter 16  
Cutler and Gruber, “Does Public Insurance Crowd Out Private Insurance?”  
Burman and Gruber, “Tax Credits for Health Insurance”

Tues, Nov 21                      Social Security I: Overview and Theory  
Gruber, Chapter 13

Fri, Nov 24                      *Thanksgiving Break: No Class*

- Tues, Nov 28      Social Security II: SS Reform  
Aaron and Shoven, "Should the United States Privatize Social Security?,"  
Chapters 1-2  
President's Commission to Strengthen Social Security, "Strengthening Social  
Security and Creating Wealth for All Americans," pages 11-23
- Fri, Dec 1        Redistribution I: Overview and Theory  
Gruber, Chapter 17
- Tues, Dec 5        Redistribution II: Welfare Reform  
Blank, "Fighting Poverty: Lessons from Recent U.S. History"
- Fri, Dec 8        Class Presentations I
- Tues, Dec 12      Class Presentations II