

# ECON 231 — Public finance

## Syllabus

University of Pennsylvania  
Margaux Luflade

Fall 2018

### Course Logistics

#### Class time and location.

- Tuesday and Thursday, 1:30pm-3pm.
- Room: Stiteler Hall B26.

**Course instructor.** Margaux Luflade, email: [mluflade@sas.upenn.edu](mailto:mluflade@sas.upenn.edu)

Office: Perelman Center for Political Science and Economics (PCPSE), office 603.

Office hours: Tuesdays, 5:30pm–7:30pm.

Email policy: You can expect me to respond to emails within 48 hours, and from 9 to 5, Monday through Friday. For questions about class that may be of interest to other students, whether it is related to logistics or material, please post on Piazza rather than emailing me (see below for information on Piazza).

**Teaching assistant.** Paolo Martellini, email: [paoloma@sas.upenn.edu](mailto:paoloma@sas.upenn.edu)

Office: Perelman Center for Political Science and Economics (PCPSE), office 641.

Office hours: Thursdays, 9:45am–11:45am.

**Canvas.** All resources for the class will be available on the Canvas course site:

<https://canvas.upenn.edu/courses/1417603>

Slides, problem sets, homework solutions and other relevant resources for the class will be posted on Canvas.

I may occasionally provide additional lecture notes, slides, or extra readings to support in-class discussion. These will also be posted on Canvas.

**Piazza.** Along with Canvas, our primary mode of communication for this class will be the online discussion forum Piazza, which you can access directly from the Canvas course site. The rationale for using a discussion forum to handle questions about course logistics and material is that when a student has a question about class, (1) multiple students usually have the same question; (2) other students typically have answers. The TA and I will actively moderate discussions on Piazza both to answer questions and approve (or amend) answers written by students enrolled in the class. Students who actively (and constructively) participate in Piazza (by asking questions, providing answers, posting content relevant to the class, etc.) may earn extra credit equivalent to up to 5%. The following link provides instructions for students on how to access Piazza forums through Canvas: <https://www.sas.upenn.edu/computing/piazza-account>

In particular, please note the following: when you start using Piazza, you will be asked to provide some information on three web pages. This information is required only if you wish to use Piazza Careers, which is an additional, optional service that Piazza offers to put students in touch with prospective employers. We will *not* use Piazza Careers in this class, so you do not have to share personal information with Piazza.

## Course description and material

**Synopsis.** The main goals of this course are to develop an understanding of why and how the government may intervene in the economy, and to study the effect of government expenditure programs and taxation systems on the welfare and behavior of citizens. This course will include an analysis of the theoretical bases that guide government intervention in the economy; the discussion of a range of issues in public finance with a focus on current policy debates; and the presentation of empirical methods used in economics to evaluate the effect of public policies.

**Prerequisites.** Econ 101 (intermediate microeconomics), Math 104 (Calculus I), as well as Math 114 (Calculus II) or Math 115 (Calculus II with Probability and Matrices) are required for this class. Econ 103 (Statistics for Economists) is recommended.

**Textbook.** Lectures and class discussion will mostly follow the following textbook:

Jonathan Gruber, *Public Finance and Public Policy* (5th Edition) WORTH Publishers, 2016.

The book is available at the Penn bookstore, or may be purchased online. Note: The 4th edition is an acceptable substitute.

**Exam material.** Exam questions may cover everything discussed in class, in the problem sets, or on the Canvas discussion board, as well as everything in the relevant chapters of the textbook (we will not cover all the chapters of the book; relevant chapters of the textbook are listed in the tentative lecture schedule at the end of this syllabus), and supplemental documents I may distribute.

Problem set questions, as well as questions I will ask in class to guide our discussion, are designed to be representative of what you may expect during the exams.

## Grades and examination

Course grades will be determined by performance on a final, two midterm exams, and problem sets, in the following proportions. There will be no extra-credit assignment.

- The final exam will account for 35% of the grade
- The first midterm exam will account for 20% of the grade
- The second midterm exam will account for 20% of the grade
- Problem sets will be equally weighted and together account for 25% of the grade

Though the exact distribution of grades varies from year to year, I will target an average grade of B+.

**Final and midterm exams.** All exams will be closed book, closed neighbor. The use of cheat sheets, course documents, electronic devices, and calculators will not be allowed during exams. In terms of material, exams will be cumulative.

- The first midterm exam will be held in class on Tuesday, October 16th.

- The second midterm exam will be held in class on Thursday, November 8th.
- The final exam will be held according to the Fall 2018 Final Examination Schedule, available on the Registrar's website. The tentative date as of now is: Friday, December 14th, from 12pm to 2pm.

**Problem sets.** Four problem sets will be distributed, and will be due by the time and day specified on each of them. It is okay for students to work in small groups and discuss problem sets. Every student is however responsible for their own and personal write-up, and must turn in an individual version of the homework (no copies). Even if you and your friend came up with the answer discussing together, you are expected take a moment to write up this answer by yourself, and to justify that answer and explain the reasoning in your own words.

**Graded work.** Graded homework and midterm exams will be returned to you in class. You are responsible for picking them up. Solutions will be posted on Canvas.

## Class policies

**Academic integrity.** It is your responsibility to be familiar with the University's Code of Academic Integrity, and to abide by its rules. Note the Economics Department's policy on academic integrity, which you can find on the Department's website:

Academic integrity is a very important part of student life, and the Department of Economics takes it seriously [...] Students who are suspected of committing infractions will be reported to the Office of Student Conduct [...] The Department reserves the right to undertake procedures that would catch breaches of academic integrity, should any arise.

**Problem sets deadlines.** Due dates will be specified for each of the problem sets, as they are assigned. You are expected to turn in your homework by the deadline. You should make arrangements to turn in your work *early* if you expect a conflict to arise at the time the homework is due.

**Exam attendance policy.** I will follow the Economics Department's policy on exam attendance, which you can find at:

<https://economics.sas.upenn.edu/undergraduate/course-information/course-policies>

In cases where attendance at a midterm or a final exam is mandatory, there are only a few valid excuses for missing an exam. They are:

- Three exams scheduled within one calendar day (for final exams ONLY!) This policy of three exams does not count for midterm exams given during class time.
- An exam is given outside of the regular class schedule and the timing conflicts with another class in which the student is enrolled.
- Observance of a university-recognized religious holiday.
- UPENN Business that takes you away from campus. Absence from campus on UPENN business includes, for example, athletic events in which you are actively participating. In such cases, you need to make arrangements with your professor ahead of the exam date to take the exam at another time (preferably earlier than the schedule date).
- An illness/health emergency.
- A death in your family.

- Documented disabilities that allow you to take the exam under other circumstances.

Examples of reasons that are *not* valid for missing an exam are:

- job internships/ interviews
- beginning fall or spring break early or returning after a scheduled exam
- end of semester early flights
- take home exams
- any other reason you would prefer not to be at the university when the exam is scheduled

*Students are responsible for making sure, at the beginning of the term, that they can attend the exams. Registering for a course means that you certify that you will be present for the exam (unless one of the explicitly stated exceptions above arises.)*

Students who arrive late to an exam will generally be required to hand in their exam at the same time as other students.

**Make-up midterm exams.** There will be no make-up midterm exam. If you miss a midterm because of one of the valid excuses listed above, your final exam grade will be used as a replacement for the missed midterm grade, on top of counting as the final exam grade. That is, if you miss a midterm because of one of the valid excuses listed above, the final will make up 55% of your grade for the course. If you miss a midterm without one of the valid excuses listed above, you will get a 0 at that midterm, and it will count with weight 20% towards your final course grade.

**Regrade policy.** Regrade of exams and problem sets may be requested, if you find a clear and compelling error in the way your exam was graded. The procedure for requesting a regrade is to submit to me a one-page typed petition detailing the supposed grading error.

No regrade request will be accepted for exams that are written in pencil and/or look altered.

In addition, note the following economics department's policies on grading requests:

Errors in grading arising from illegible or garbled answers are not subject to correction. [Your answers must be legible. Answers that I and/or the grader cannot read or understand, regardless whether it is due to poor hand-writing, grammar or anything else, will be deemed wrong.]

Students should not approach either the instructor or the TA with an oral request before making their written request. Requests should be focused on the specific error and should be made within a week of the work being returned.

The entire graded work (problem set or examination) should be resubmitted; there is no guarantee that grades will rise as, statistically, positive and negative errors in grading are equally likely.

If the request arises because you think different students have been graded differently, all the affected students should submit their work as a group [and may all be regraded].

**Sharing class material.** Course documents—including problem sets, practice exams, exams, and their respective solutions—are to be used **exclusively** by students enrolled in this course, and are not to be shared with people outside of this class. Regardless of whether documents are physically distributed in class or posted on the Canvas course site, **any re-posting online (including on any course material sharing website) is prohibited.**

## Course outline

### 1. Economic bases for government intervention

- Introduction [1 lecture session]
  - Isn't the market efficient?
  - The notion of social welfare
  - The idea of redistribution
- Externalities [3 lecture sessions]
  - How do externalities lead to inefficiency of the competitive market?
  - Government interventions
  - Application: environmental externalities
- Public goods [3 lecture sessions]
  - How does efficient provision of public goods fail on the competitive market?
  - Government interventions
  - The political economy of public goods provision: elements

### 2. Selected public policy issues

- Education [1 lecture session]
- Income distribution [2 lecture sessions]
- Social insurance
  - Theoretical foundations of insurance [2 lecture sessions]
  - Social Security [1 lecture session]
  - Insurance against the inability to work: unemployment insurance (UI), disability insurance (DI), workers compensation (WC) [1 lecture session]
  - Health insurance [3 lecture sessions]

### 3. Taxation

- Basic facts and concepts; what do we want from a tax system? [1 lecture session]
- Theoretical foundations
  - Tax incidence [1 lecture session]
  - Tax inefficiencies [1 lecture session]
  - Optimal taxation [1 lecture session]
- Taxation in the U.S.: elements of discussion [3 lecture sessions]

## Tentative homework schedule

The first problem set will be assigned as we finish covering externalities, and be due a week later, in class.

The second problem set will be assigned as we finish covering public goods, and be due a week later, in class.

The third problem set will be assigned as we cover health insurance, and be due a week later, in class.

The fourth problem set will be assigned as we finish the theory of taxation, and be due a week later, in class.

## Tentative lecture schedule

Lecture number and date	Topic	Relevant textbook chapters
1. Tue. Aug. 28th	Introduction	2.3
2. Th. Aug. 30th	Externalities	5; 6.1, 6.2; 3
3. Tue. Sept. 4th		
4. Th. Sept. 6th		
5. Tue. Sept. 11th	Public goods	7; 9.1; 10.2
6. Th. Sept. 13th		
7. Tue. Sept. 18th		
8. Th. Sept. 20th	Education	11; 10.3
9. Tue. Sept. 25th	Income distribution	17; 12.5
10. Th. Sept. 27th		
11. Tue. Oct. 2nd	Social insurance: theoretical foundations	12
– Th. Oct. 4th (Fall break)		
12. Tue. Oct. 9th	Social Security	13
13. Th. Oct. 11th		
<b>14. Tue. Oct. 16th</b>	<b>Midterm 1</b>	
15. Th. Oct. 18th	UI, DI, WC	14
16. Tue. Oct. 23rd	Health insurance	15; 16
17. Th. Oct. 25th		
18. Tue. Oct. 30th		
19. Th. Nov. 1st	Taxation: basics	18.1; 18.3
20. Tue. Nov. 6th	Tax incidence	19
<b>21. Th. Nov. 8th</b>	<b>Midterm 2</b>	
22. Tue. Nov. 13th	Tax inefficiencies	20.1
23. Th. Nov. 15th	Optimal taxation	20.2, 20.3
24. Tue. Nov. 20th	Taxation in the U.S.: Elements of discussion	18; 21; 25
– Th. Nov. 22nd (Thanksg.)		
25. Tue. Nov. 27th		
26. Th. Nov. 29th		
27. Tue. Dec. 4th		

Lecture number and date	Topic	Relevant textbook chapters
28. Th. Dec. 6th	Review	
29. Fri. Dec. 14th	Final exam	

## Additional readings

### Externalities

Josh Barro, *Don't Want Me to Recline My Airline Seat? You Can Pay Me*. New York Times, August 27, 2014.  
 Robert Stavins (1998): "What Can We Learn from the Grand Policy Experiment? Lessons for SO2 Allowance Trading." *Journal of Economic Perspectives*, Vol 12, No. 3: 69–88.

### Public goods

John Tierney: *A Tale of Two Fisheries*, NY Times Magazine, August 28, 2000.

### Income distribution

Hanming Fang and Michael Keane (2006), "Assessing the Impact of Welfare Reform on Single Mothers." *Brookings Papers on Economic Activity*, 2004, Volume 1: 1–116.

*Welfare reform A patchy record at 20*. *The Economist*, August 20, 2016

*Poverty in America: No money no love*. *The Economist*, August 20, 2016

### Social insurance

Martin Feldstein, "Rethinking Social Insurance." NBER Working Paper

### Social security

Martin Feldstein, "Structural Reform of Social Security." *Journal of Economic Perspectives*, Spring 2005: 33–55.

### Social insurance

John H. Cochrane, *After the ACA: Freeing the market for health care*. October 18, 2012.

Karl Denninger (2017). *The Bill to Permanently Fix Health Care for All*. Market Ticker Blog.

Hanming Fang (2017). "The Economic Realities of Replacing the Affordable Care Act." *Wharton Public Policy Initiatives Issue Brief*, Volume 5, No. 3.

Milton Friedman (2001). *How to Cure the Health Care*. *The Public Interest*. Winter 2001.

Paul Howard and Stephen T. Parente (2010). *Toward Real Health Care Reform*. *National Affairs*, 2010.

Paul Krugman, *Health Care Reform Myths*. March 12, 2010, New York Times.