

UNITED STATES NAVAL ACADEMY

Economics Department Public Finance Fall 2006

FE431 – Sections 2001, 3001, and 4001 (MWF 2nd, 3rd, and 4th periods) in CH157

Professor: Associate Professor Pamela Schmitt
Office: Nimitz 73
Phone: 3-6888
Office hours: **Tuesday 2nd and 3rd periods and Wednesday 5th and 6th periods.** I teach MWF 2nd, 3rd, and 4th periods and M 5th so please make an appointment for any other time.
E-mail: pschmitt@usna.edu (the best way to reach me!)
Web page: <http://www.usna.edu/Users/econ/pschmitt/FE431/2006/FE431.html>

I. Course Description and Text

This course introduces students to concepts of public sector economics; particularly we will examine how the government affects efficiency and equity in the U.S. economy. The course uses microeconomic tools to examine the functions of government, specifically the taxing and spending activities of the public sector. We will study market failures such as public goods and externalities; we will study governmental design and implementation of taxes. Finally, we will analyze public policy issues such as social security reform, health care policy, education policy, and poverty relief.

Text

Economics of the Public Sector by Joseph E. Stiglitz; W.W. Norton; 3rd edition

Prerequisite

FE210 and FE341

II. Grading

Midterm and Final Exams

There will be two semester exams and one final exam. The exams will be scheduled for administration on the dates marked on this course syllabus. Each exam will cover designated chapters from the textbook and class notes. Questions may be drawn from topics mentioned in class, from the textbook, and from the class notes. The length and description of each exam will be announced in class, but a general description is also provided below.

Exams may include true/false questions, short answer essays, analytical problems, and longer essays. This format requires the student to know the material *and* be able to synthesize it in a logical, coherent manner. The communication of ideas is nearly as important as the idea itself; for what good is knowledge that cannot be conveyed to others?

You will not be allowed to use a calculator on any exam.

Participation

Positive class participation includes, but is not limited by, contributing to discussion (daily preparation) and incorporating the textbook and any newsworthy materials. Negative class participation includes, but is not limited by, talking with your classmates during lecture (or any disruptive behavior) and sleeping during class. Class participation will factor into your homework grade.

Homework assignments

There will be several writing assignments, exercises and/or question that will be made available throughout the semester, these are required to be completed (with sincere effort) but will not be graded for points. If the exercise is sufficiently completed, it will earn a check. The percentage of checks you receive divided by the total checks possible will be your homework grade (5% of your course grade). The intent of these exercises is to provide the student with the opportunity to read the text and determine the important information as well as to apply the material presented in class and gain insight as to how questions and topics may appear on the exam. Answers will appear on my web page after class and therefore assignments will not contain corrections. **No late assignments will be accepted (regardless of SIR or movement orders).**

Presentation: Debate/Lecture

In addition to the stated exams, each student will either participate in **either** a debate on an assigned topic **or** present a lecture on an assigned topic (15% of your course grade).

→ **For the debates**, one student will argue “for” the topic and the one student will argue “against” the topic; the class will determine a “winner”. You will be expected to do outside research on the topic and prepare a powerpoint presentation. You will be graded on the thoroughness and style of your debate as well as your powerpoint presentation. The debates will occur the last week of class.

→ **For the lecture**, two students will summarize and teach the material found in the text (non-theoretical chapters; Chapters 12, 14, and 16). Each student will be expected to create one homework problem (so two problems total) and prepare a lecture. You will be graded on the lecture notes you provide me as well as your delivery of the material in class. Students will be tested on the material presented by their classmates. The lecture will occur during the appropriate class time.

Thus, grades will be based on two exams, your presentation (either debate or lecture), instructor evaluation, and a final exam.

<u>Graded Assignment</u>	<u>Points</u>
Midterm Exam I	25%
Midterm Exam II	25%
Final exam	30%
Debate/Lecture	15%
<u>Homework</u>	<u>5%</u>

The grading scale is as follows:

A	90 % – 100 %
B	80 % – 89 %
C	70 % – 79 %
D	60 % – 69 %
F	59 %

There will be no other opportunities to earn points for this course other than the stated examinations and paper. The examinations, article, and paper are the only means by which you can convey your understanding of the material in this course. No extra-credit will be offered.

III. Course Organization and Administration

Course Structure

The course is organized around three 50-minute class sessions and is primarily a lecture-based course. The course material is theoretical in nature and must be presented *before* the material can be discussed or applied to current events. Because of this, my primary role is to present the *technical* and *theoretical* aspects of the text material so the student will have a better idea of what the result is and where it is coming from. The debates and lectures will provide students with the application and discussion of the course material as it pertains to relevant government policy.

Daily Preparation

Each student should read the assigned chapter *before* coming to class. Following the completion of each chapter in lecture, the student should re-read the chapter for emphasis and synthesize course notes with the text. A good check of your understanding of the course material is to complete the *Questions and Problems* which are located at the end of each chapter. If any of these remain unclear after this process, then there is a gap which needs to be filled immediately. Do not procrastinate and leave these gaps until just prior to exam time. Much of the material is inter-related and should be mastered before additional concepts are applied.

Make-up Exams

If you are committed to attend an event during a FE431 exam time, such as an athletic meet, musical performance, movement orders, or have watch in Bancroft Hall, then you must arrange *in advance* (by e-mail at a minimum) to take the exam *before* the scheduled exam date. If you are SIR, then you must arrange *in advance* (by e-mail at a minimum) to take the exam *after* the scheduled exam date.

Without notification prior to the exam, you will not be permitted to reschedule the exam. Likewise, if you have an unexcused absence (as noted in MIDS) you will not be permitted to reschedule the exam.

Regardless, you will have **only two days after** the scheduled exam to take the exam or you will have to take a make up exam during the last week of classes.

Honor Code

This course is taught under *The Honor Concept of the Brigade of Midshipmen*. Midshipmen of the United States Naval Academy agree to accept the responsibilities for honorable conduct in that "Midshipmen are persons of integrity: They stand for that which is right" in all academic activities.

Students must not give or receive aid on exams. This includes, but is not limited to, viewing the exams of others, sharing answers with others, and using books or notes while taking the exam. *It also includes discussing the exam in order to help those who are taking it at a later time or date.*

NOTE: Additional Readings (journal/newspaper articles) will be distributed during class.

WEEK ONE: August 21st

Chapter 1: The Public Sector in a Mixed Economy

Chapter 2: The Public Sector in the United States

Discuss: *Textbook* Chapter 1

Key Ideas: mixed economy, privatization, mercantilists/laissez faire,
government failures, and scarcity (production possibilities schedule)

Read: *Textbook* Chapters 1 and 2.

WEEK TWO: August 28th

Chapter 2: The Public Sector in the United States

Chapter 3: Market Efficiency

Discuss: *Textbook* Chapter 2 and 3.

Key Ideas: Government Activities, In-Kind Benefits, Social insurance, and
taxation.

Read: *Textbook* Chapters 3 and 4.

WEEK THREE: September 4th (Tuesday is a Monday schedule)

Chapter 3: Market Efficiency

Chapter 4: Market Failure

Discuss: *Textbook* Chapter 3 and 4.

Key Ideas: Marginal Social Benefit, Marginal Social Cost, Welfare Economics,
Productive Efficiency (MRTS, Isoquant, Isocost review from FE341),
and Pareto Efficiency

Read: *Textbook* Chapters 4 and 5 (including Appendix).

WEEK FOUR: September 11th

Chapter 4: Market Failure

Chapter 5: Efficiency and Equity

Discuss: *Textbook* Chapters 4 and 5 (including Appendix).

Key Ideas: Lack of Competition, Public Goods, Externalities, Incomplete
Markets, Information Failures, Unemployment, Inflation, and
Disequilibrium,

Read: *Textbook* Chapter 5.

WEEK FIVE: September 18th

Chapter 5: Efficiency and Equity

Discuss: *Textbook* Chapter 5 (including Appendix).

Key Ideas: Trade-off, Marginal Utility, Social Welfare Function, Utilitarians,
Lump-sum tax, Deadweight Loss (Excess Burden), Lorenz Curve

EXAM – chapters 1 – 5 scheduled for FRIDAY September 22nd

Read: *Textbook* Chapter 6 (after the exam).

WEEK SIX: September 25th

Chapter 6: Public Goods and Publicly Provided Private Goods

Discuss: *Textbook* Chapter 6.

Key Ideas: Characteristics of Goods, Free-Rider Problem, Tax Price, Publicly
provided Private Goods, User Fees, and Collective Demand Curve

Read: *Textbook* Chapter 7.

WEEK SEVEN: October 2nd

Chapter 7: Public Choice

Discuss: *Textbook* Chapter 7.

Key Ideas: Taxes (Progressive and Regressive), Voting Paradox, Arrow's Impossibility Theorem, Single-peaked and Multiple-peaked Preferences, Median Voter, and Lindahl Equilibrium

Read: *Textbook* Chapter 9 (note: skip chapter 8).

WEEK EIGHT: October 9th (we have class only on Wed and Fri)

Chapter 9: Externalities and the Environment

Discuss: *Textbook* Chapter 9 (note: skip chapter 8).

Key Ideas: Externalities, Coase Theorem, Common Resource Problem, Pigouvian Taxes, and Marketable Permits.

Read: *Textbook* Chapter 10.

WEEK NINE: October 16th

Chapter 10: The Analysis of Expenditure Policy

Discuss: *Textbook* Chapter 10.

Key Ideas: Crowding out, Income and Substitution Effect, Tax Incidence, Progressive and Regressive.

Read: *Textbook* Chapter 11.

WEEK TEN: October 23rd

Chapter 11: Cost-Benefit Analysis

Discuss: *Textbook* Chapter 11.

Key Ideas: Discount Factor, Present Discount Value, Risk Premium, and Risk Assessment.

Read: *Textbook* Chapter 12 (after the exam).

WEEK ELEVEN: October 30th

EXAM – chapters 6, 7, 9, 10, and 11 scheduled for MONDAY OCT. 30th

Chapter 12: Health Care – STUDENT LECTURE ON FRIDAY

Discuss: *Textbook* Chapter 12 (note: skip chapter 11).

Key Ideas: Medicare, Cost Shifting, Adverse Selection, Moral Hazard,

Read: *Textbook* Chapter 14 (after exam – note: skip chapter 13).

WEEK TWELVE: November 6th

Chapter 14: Social Insurance – STUDENT LECTURE ON WEDNESDAY

Discuss: *Textbook* Chapter 14.

Key Ideas: Income and Substitution Effects, Income-In-Kind, and Tax Rate Structure

Read: *Textbook* Chapter 15.

WEEK THIRTEEN: November 13th

Chapter 15: Welfare Programs and the Redistribution of Income

Discuss: *Textbook* Chapter 15.

Key Ideas: AFDC, TANF, WIC, Welfare, In-Kind Benefits, Labor Supply Issues, and Negative Income Tax.

Read: *Textbook* Chapter 16.

WEEK FOURTEEN: November 20th

Chapter 16: Education – STUDENT LECTURE ON MONDAY

Discuss: *Textbook* Chapter 16.

Key Ideas: Human Capital and School Vouchers

Read: *Textbook* Chapter 18 (note: skip chapter 17).

WEEK FIFTEEN: November 27th

Chapter 18: Tax Incidence – STUDENT DEBATES ON FRIDAY

Discuss: *Textbook* Chapter 18.

Key Ideas: Tax Incidence, Progressive, Regressive, Elasticity of Demand,
Elasticity of Supply, and Ad Valorem Tax.

WEEK SIXTEEN: December 4th

STUDENT DEBATES ON MONDAY AND WEDNESDAY

Classes End December 7th

FINAL IS CUMULATIVE

Review and Examinations – December 9th – 16th