**Course Description:** A decentralized, free, competitive market economy has proven to be the most effective system for producing material goods and services in the modern world. However, markets are imperfect — they may be incomplete, lack sufficient competition, or may generate an inequitable distribution of economic benefits. Government activity is necessary to provide defense, maintain order, and protect property rights, necessary conditions for markets to function. Some government intervention in markets may also be useful for improving outcomes when markets are imperfect or inequitable. However, government activity is imperfect, may worsen inefficiencies and inequities in the economy, and requires significant resources that must be taken from the private sector of the economy through taxation.

This course examines the microeconomic functions of government focusing on the taxing and spending activities of the public sector. The primary objective of the course is to develop in students the ability to understand and explain the core objectives of government activity (improving economic efficiency and equity) in a market economy, and to think critically about and evaluate current and proposed government institutions, policies, and programs in light of those objectives.

**Learning Objectives:** Upon completion of this course, students should be able to

1. Clearly explain the economic concepts of “efficiency” and “equity”.
2. Appreciate the benefits of free markets for allocating resources and promoting economic efficiency, but also identify the main causes of both market failure and government failure.
3. Differentiate between competing perspectives on equity and distributive justice.
4. Evaluate specific government policies and the potential role for policy to address (or create) inefficiencies and promote (or prevent) distributive justice in a market economy.
5. Understand the U.S. tax system and analyze the impact of specific taxes on the resource allocation decisions of individuals and firms.

**Grades:** Your course grade is based on total points accumulated on:

(A) 2 Midterm Exams – 100 points each
(B) Final Exam (Cumulative) – 100 points
(C) Homework and Weekly Writing Assignments – 50 points
(D) Research Project – 50 points
**Grading Scale:** There will be a total of 400 points possible in this course. Your final letter grade will be based on the following scale - expressed as a percentage of 400 points:

A (90-100%)   B (80-89%)   C (70-79%)   D (60-69%)   F (59% and below)

This grading scale is absolute (there will be no “curve”). Everyone can get an A or everyone can get an F. A grade will be rounded up if the fractional part of the final average is equal to or above .5. A grade will be rounded down if the fractional part of the final average is below .5. For example: 89.5% becomes 90%, an A for the course. An 89.49 becomes an 89%, a B for the course.

**Exams:** All exams consist of short answer, essays, and problems. Tentative exam dates are listed in the below. Using calculators in text mode or to access programmed material during exams is not permitted.

**Research Project and Presentation:** Details of the research project will be discussed later in the course.

**Honor Concept:** “Midshipmen are persons of integrity: We stand for that which is right. We tell the truth and ensure that the full truth is known. We do not lie. We embrace fairness in all actions.

We ensure that work submitted as our own is our own, and that assistance received from any source is authorized and properly documented. We do not cheat.”

Students are reminded that plagiarism is the presentation of another’s work as one’s own. Plagiarism is the most serious example of academic dishonesty. Plagiarism and proper documentation techniques are discussed in The Longman Handbook for Writers and Readers. Any student found to have plagiarized either all or part of a course paper will receive a grade of zero and be charged with violation of the Honor Concept.

**Extra Credit:** Under no circumstances will I give extra credit to individual students. However, during the course of the semester there may be optional class exercises in which extra credit may be earned.

**Homework and Weekly Writing Assignments** will be announced in class. Both will be collected and checked. Students not in class the day an assignment is made are still responsible for completing the assignment on time. All assignments will be posted on the web for you to download if you are not in class. You should always check to see if an assignment has been made. **Writing assignments must be typewritten.** Assignments that are complete and represent a “Good Faith Effort” will receive a check. Some homework solutions will be posted on the web.
Tentative Schedule and Outline of Topics

Part I: The Benefits of Free Markets
- Assignment 1: Adam Smith (1776), portions of The Wealth of Nations
- Laurence Seidman, Public Finance, Chapter 1 (Introduction to Public Finance)
- Laurence Seidman, Public Finance, Appendix (The Indifference-Curve / Budget Line Diagram)
- Assignment 2: Problem Set

Part II: Market Failure and Government Failure
- Assignment 3: Problem Set
- Assignment 4: Dr. Seuss (1971), The Lorax
- Laurence Seidman, Public Finance, Chapter 2 (Externalities and the Environment)
- Laurence Seidman, Public Finance, Chapter 3 (Public Goods)
- Assignment 5: Problem Set

Exam 1 – TBD
- Laurence Seidman, Public Finance, Chapter 3 (Political Economy)
- Assignment 7: Dennis Young, “Contract Failure Theory”, and Dennis Young, “Government Failure Theory”, in The Nature of the Nonprofit Sector, ed. by J. Steven Ott, 2001

Part III: Social Insurance, Redistribution, and Low-Income Assistance
- Laurence Seidman, Public Finance, Chapter 5 (Social Security)
- Laurence Seidman, Public Finance, Chapter 6 (Health Care)
- Laurence Seidman, Public Finance, Chapter 11 (Education)
- Assignment 9: Problem Set

Exam 2 – TBD
- Laurence Seidman, Public Finance, Chapter 12 (Low-Income Assistance)

Part IV: Efficient and Equitable Taxation
- Laurence Seidman, Public Finance, Chapter 7 (Tax Incidence and Inefficiency)
- Laurence Seidman, Public Finance, Chapter 8 (Income Taxes)
- Laurence Seidman, Public Finance, Chapter 9 (Consumption Taxes)
- Assignment 12: Problem Set

Part V: Deficits, Debt, and the Size of Government
- Laurence Seidman, Public Finance, Chapter 13 (Government Borrowing)

Final Exam - The final exam is cumulative.