

THE COLLEGE OF WILLIAM AND MARY

ECONOMICS 321 ECONOMICS OF THE PUBLIC SECTOR Spring 2022

Alfredo Marvão Pereira

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Introduction:

This course presents a comprehensive overview of the field of economics of public sector. It covers both conceptually and at a more practical level the general areas of government expenditures, taxation, as well as deficits and debt, all mostly at the federal level.

It provides the tools necessary to better understand and to critically think about the information around us pertaining to the public sector.

Course requirements and grading policy:

The course is organized in three modules of lectures followed by a test.

There will be three take-home non-cumulative tests. Each test contributes to one-third of the final grade. The first test is on February 25; the second test on April 4; and the third test/final exam on May 12 for the MWF 1.00 pm section and on May 16 for the MWF 11.00 am section.

Re-grades on each test will be considered during the first week after the test is returned. Deviations from these guidelines (i.e., missing tests, changing weights) must be cleared in advance.

Retakes of the first two tests for extra credit are available to those with grades lower than 70%. All adjustments must be completed by the last day of classes.

Recommended course materials:

Economics of the Public Sector, by Joseph Stiglitz, Norton, 3rd Edition.

Lecture Notes - available through Blackboard

Miscellaneous Readings - available through Blackboard.

Office hours:

My office hours will be MW from 12.00 to 1100 am or any time by appointment. You are encouraged to submit questions by e-mail.

Schedule changes and other important dates:

Fall Break: March 12-20, 2022

Add/Drop deadline: February 4, 2022.

Withdraw deadline: March 28, 2022.

Classes cancelled for personal reasons:

April 22, 2022

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PLANNING FOR CONTINGENCIES

This semester, the world will enter its third year with COVID. As we experience a fifth surge of pandemic with the highly transmissible omicron variant, it is reasonable to expect significant levels of infection at W&M. All of us are expected to follow W&M requirements - vaccinations and boosters, indoor masking, as well as quarantine and isolation when ill. That last is really important: for those who have tested positive, W&M's requirements must be fulfilled before class can be attended in person, and, out of an abundance of caution, anyone with symptoms consistent with COVID- even if they don't have a positive test- should not come to class. For this course, this is how we will address the situation with unintended and unplanned absences,

Instructor absences:

- a. If for whatever reason I need to cancel an **occasional lecture**, I will let you know as soon as possible and a recording of the lecture will be available on Blackboard for students to view before the next lecture. As the calendar schedule for the semester has some redundancies built in, it is also possible that I will not assign any lecture recording.
- b. If for whatever reason I need to cancel **several consecutive lectures** and I am able to do so, I will deliver the lectures by Zoom.
- c. If for whatever reason I need to cancel **several consecutive lectures** and I am NOT able to do the lectures by Zoom, either video recordings of the corresponding lectures will be assigned or another instructor will be assigned to teach these classes.

Student absences:

- a. Student are highly encouraged to attend lectures in person although I will not be taking class attendance.
- b. If you have to miss an **occasional lecture**, video recording of the corresponding are available on Blackboard.
- c. If you have to miss **several consecutive lectures**, video recording of the corresponding are available on Blackboard. In addition, you are encouraged to work with the instructor on ways to make sure that you are getting all of the information you need for this course.

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ECONOMICS OF THE PUBLIC SECTOR
LIST OF TOPICS AND READINGS

MODULE ONE – The Public Sector in the United States

1.1 An overview of the public sector in the US

[Lecture Notes – 2]

1.2 Different levels of public sector in the US

[Lecture Notes – 3]

1.3 On the revenue side: federal level

[Lecture Notes – 4]

1.4 On the revenue side: state and local levels

[Lecture Notes – 5]

1.5 On the expenditure side: federal level

[Lecture Notes – 6]

1.6 On the expenditure side: state and local levels

[Lecture Notes –7]

1.7 On the federal public debt

[Lecture Notes – 8 and 9]

1.8 Problems with deficits and debt

[Lecture Notes – 10]

1.9 Federal budget outlook

[Lecture Notes – 11]

1.10 Problems with taxes and focus of public sector

[Lecture Notes – 12]

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SYLLABUS AND READINGS

MODULE TWO – PART 1: Public Intervention: When and How?

2.1 Non-interventionism

[Book - Chapter 3, pages 55-61]

[Lecture Notes - 15]

2.2 Market Failures: general concept, no equilibrium, merit goods

[Book - Chapter 4]

[Lecture Notes –16]

2.3 Market Failures: monopolies, imperfect information, incomplete markets

[Book - Chapter 4]

[Lecture Notes –17]

2.4 Market Failures: Externalities

[Book - Chapter 9, pages 214-233]

[Lecture Notes – 18 and 19]

2.5 Market Failures: Public Goods

[Book - Chapter 6, pages 127-136]

[Lecture Notes – 20]

2.6 Alternative Forms of Intervention: public provision and its problems

[Lecture Notes – 21]

2.7 Alternative Forms of Intervention: public production and its problems

[Lecture Notes – 22 and 23]

2.8 Alternative Forms of Intervention: public controls, vouchers

[Lecture Notes – 24]

2.9 Alternative Forms of Intervention: private contracting

[Lecture Notes – 24 and 25]

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SYLLABUS AND READINGS

MODULE TWO – PART 2: Public Intervention: Policy Evaluation

2.10 Policy Evaluation: Efficiency and Equity Trade off

[Book - Chapter 10]

[Lecture Notes – 28]

2.11 Policy Evaluation: Efficiency

[Book - Chapter 10]

[Lecture Notes – 29]

2.12 Policy Evaluation: Incidence

[Book - Chapter 10]

[Lecture Notes –30]

2.13 Policy Evaluation: Introduction to Benefit-Cost Analysis

[Book - Chapter 11]

[Lecture Notes – 31 to 33]

MODULE THREE – Financing Public Intervention: Taxation

3.1 Theory of Taxation: Preliminary Concepts

[Lecture Notes – 34 and 35]

3.2 Theory of Taxation: Criteria for a Good Tax System - Simplicity

[Book - Chapter 17, pages 456 - 475]

[Lecture Notes 36]

3.3 Theory of Taxation: Criteria for a Good Tax System – Efficiency and Fairness

[Book - Chapter 17, pages 456 - 475]

[Lecture Notes 37]

3.4 Taxation in the United States: On the Need for Tax Reform

[Book - Chapter 25, pages 693 - 710]

[Lecture Notes - 38]

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Lecture 1 - Organizational Meeting

DETAILED SCHEDULE OF THE LECTURES
FOR THE FIRST TEST

MODULE ONE – PUBLIC SECTOR IN THE USA

Lecture 2 - General overview of the public sector in the US

Lecture 3 - Different levels of public sector in the US

Lecture 4 - Taxes at the federal level

Lecture 5 - Taxes at the state level

Lecture 6 - Expenditures at federal level

Lecture 7 - Expenditures at state level

Lecture 8 - Public Federal Debt - part 1

Lecture 9 - Public Federal Debt - part 2

Lecture 10 - Public Deficit and Public Debt: what are the problems with deficits and debt?

Lecture 11 – Public Deficit and Public Debt: how much is too much?

Lecture 12 – Public Deficit: how can we control it?

Lecture 13 – Review Session

Lecture 14 - Test 1 covering Lectures 2 to 12 [Take-home from 9am – 5:00 pm]

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DETAILED SCHEDULE OF THE LECTURES FOR THE SECOND TEST

MODULE TWO – PART ONE - PUBLIC INTERVENTION: WHEN AND HOW

Lecture 15 – non-interventionism

Lecture 16 – market failures: no equilibrium; PE not relevant

Lecture 17 – monopolies, incomplete information and incomplete markets

Lecture 18 - externalities and their problems

Lecture 19 - externalities and their solutions

Lecture 20 – public goods; when to endorse public intervention

Lecture 21 – public provision and its problems

Lecture 22 – public production and its problems

Lecture 23 – bureaucracies and its problems; public controls

Lecture 24 – public controls vouchers; private contracting

Lecture 25 – private contracting in national defense

Lecture 26 – Review Session

Lecture 27 - Test 2 covering Lectures 15 to 25 [Take-home from 9am – 5:00 pm]

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DETAILED SCHEDULE OF THE LECTURES
FOR THE THIRD TEST

MODULE TWO – PART TWO - PUBLIC INTERVENTION: POLICY EVALUATION

- Lecture 28** - Policy Evaluation: Efficiency vs Equity
- Lecture 29** - Policy Evaluation: Efficiency
- Lecture 30** - Policy Evaluation: Fairness/Incidence
- Lecture 31** - Policy Evaluation: BCA in general
- Lecture 32** - Policy Evaluation: BCA in the Public Sector
- Lecture 33** - Policy Evaluation: BCA in the Public Sector

MODULE THREE - TAXATION

- Lecture 34** – Taxation: basic concepts
- Lecture 35** – Taxation: effective and marginal tax rates
- Lecture 36** – Taxation: desirable properties of a tax system: simplicity
- Lecture 37** – Taxation: desirable properties of a tax system: efficiency and fairness
- Lecture 38** – Taxation: scope for tax reform in the US

- Lecture 39** – Review Session
- Lecture 40** - Test 3 covering Lectures 28 to 38 [Take-home from 9am – 5:00 pm]