

Econ450SP15 Public Finance: Government Spending

Syllabus

The Instructor: About me

Name: Neil Bruce

Bio: I am the Paul F. Glaser Professor of Economics and have been at UW since 1991. I received my Ph.D. from the University of Chicago in 1976. My field specialty is Public Finance and Public Policy. My research interests are Social Security, retirement saving, and the economics of aging populations.

Location: Savery Hall 329

Office Hours: Monday 10:30A-noon

Phone: 206-543-5874

E-Mail: brucen@uw.edu

Please note: I do not answer questions about course subject matter or assignments by email. You should come to my office hours with such questions.

A discussion board has been set up on the class page where questions about the course subject matter and assignments can be discussed and exchanged. I will monitor the board and respond when I can. You are encouraged to participate.

Classlist: econ450a_sp15@uw.edu

Classpage: <https://catalyst.uw.edu/workspace/brucen/40173/>

The Course: What You Will Learn

You will be evaluated on how well you achieve three learning goals.

- Assemble significant facts about the spending programs of governments in the United States including spending on national defense, highways, environmental regulation, welfare, social security, health, and education.
- Analyze the effects of these programs on the economy, including their effects on the level and distribution of economic welfare, using basic intermediate microeconomics.
- Develop an understanding of the political and economic reasons why different government spending programs exist, and the ability to evaluate these programs and their alternatives in terms of attaining specified economic and social objectives.

The Course: How I Assess Your Learning

Your course grade is based on two non-cumulative class tests. The first class test is on **Wednesday April 29** and the second class test is on **Wednesday June 3** (last day of class.) The tests must be taken on these days—I do not have the resources to offer make up tests.

There are five optional, *but highly recommended*, homework assignments. The main reward for doing the assignment is learning and preparation for the tests, but at my discretion, I will count your homework average to improve your course with a weight of 20% of your total grade. Assignments are graded 4 (good), 3 (average), 2 (below average), or 1 (thank you for handing something in.) If you do not do the assignments your grade depends wholly on the test grades. Assignments must be submitted in hard copy in class on the due date, or earlier. *Electronic submission is allowed only under special circumstances and must be requested in advance.*

Tests and assignments are objective (problems, multiple choice, no essays.) Grades are not curved. In the past, average course grades were in the range 3.2 to 3.5.

Policy on Academic Integrity (PLEASE READ)

To provide a fair class for all students, I fully enforce UW policies on academic integrity and honesty. Academic dishonesty of any sort is not acceptable. My preference is to respect and treat you as responsible adults, and presume that you are honest. In return, please return this respect by scrupulously complying with the policies. Cooperative learning outside of tests is encouraged.

I am asked to remind you of the policy of the Department of Economics.

Academic integrity is the cornerstone of the Department's rules for student conduct and evaluation of student learning. Students accused of academic misconduct will be referred directly to the Office of Community Standards and Student Conduct for disciplinary action pursuant to the Student Conduct Code and, if found guilty, will be subject to sanctions. Sanctions range from a disciplinary warning, to academic probation, to immediate dismissal for the Department and the University, depending on the seriousness of the misconduct. Dismissal can be, and has been, applied even for first offenses. Moreover, a grade of zero can be assigned by the instructor for the course.

Lectures and Readings

Lecture notes are available on the class page. These are **required reading**. The notes contain hyperlinks where more information is available to strengthen your learning. More links are provided on the course homepage. These linked readings are recommended but not required unless expressly assigned. **Please read the upcoming topics ahead of class and be prepared to discuss and ask questions.** *The lecture notes do not substitute for attending class.* Questions on tests are drawn from the lecture notes and class discussions.

I Role of Government in the Economy

- A) TOPIC 1 SPENDING BY US GOVERNMENTS. The “stylized facts” on government spending including how much the government spends, what it spends on, which level of government does the spending, and how such facts differ across countries and over time.

TOPIC 2 THE MARKET FAILURE THEORY OF MIXED ECONOMIES. When markets are efficient, when they are not, and how government programs can (in principle) can benefit everyone by improving economic efficiency. Also, the demand for income redistribution.

II Public Goods

- A) TOPIC 3 THE EFFICIENT QUANTITIES OF PRIVATE AND PUBLIC GOODS. The definition of a public good according to its properties (non-rival and non-excludable). The conditions for the efficient production of a public good are explained and compared to the efficient conditions for private goods.
- B) TOPIC 4 PUBLIC GOODS AND MARKET FAILURE. The reasons why voluntary exchange in markets or voluntary contributions will fail to provide adequate quantities of public goods are explained. The Prisoner’s Dilemma and Free Rider problems described. Why government coercion, such as taxes, can make everyone better off.
- C) TOPIC 5 APPLICATION TO CONGESTIBLE PUBLIC GOODS. The efficient provision and use of congestible public infrastructure, such as roads, tunnels and bridges, is explained. How congestion tolls work, and why they are a good idea.

III Market Externalities

- A) TOPIC 6 EXTERNALITIES AND MARKET FAILURE. Externality as a generalized form of market failure. What is and what is not an externality. Why pollution is a market failure, not a sin. The Coase Theorem and the true nature of externalities.
- B) TOPIC 7 GOVERNMENT POLICIES TO CONTROL EXTERNALITIES. Governments intervene in markets to correct for externalities in several ways. We compare command and control regulations to market based policies like cap and trade and individual fishing quota.

IV The Government Decision-Making Process

- A) TOPIC 8 GOVERNMENT DECISION-MAKING BY VOTING. How public choices are made through voting and other political actions. Main topics are the pocketbook voter and the median voter theorem.

- B) TOPIC 9 VOTING OUTCOMES AND EFFICIENT OUTCOMES. When does voting lead to efficient public good outcomes? The median voter outcome and the efficient outcome. Lindahl's equilibrium. Government failure and market failure. Condorcet's Paradox.

V Government and the Distribution of Well-Being

- A) TOPIC 10 MEASURING INEQUALITY AND POVERTY. Methods of measuring inequality and poverty are described. Lorenz curve and Gini coefficient. Absolute and relative measures of poverty. The Orshansky method and other methods of measuring poverty.
- B) TOPIC 11 GOVERNMENT POLICIES TOWARD THE DISTRIBUTION OF INCOME. The government redistributes income for several reasons, including charity as a public good, social insurance (safety net), distributional justice (equity). Distributional weights and redistribution.

VI Government Transfer Programs

- A) TOPIC 12 WELFARE—TRANSFERS TO PERSONS WITH LIMITED INCOMES. What are the main means-tested (or welfare) programs? How much is spent and how the programs are structured. Payment standards and benefit reduction.
- B) TOPIC 13 THE EFFECTS OF WELFARE AND WELFARE REFORM. How does means-testing affect the recipient's behavior? Are transfers in cash better or worse than transfers in kind? Why is most welfare in-kind? What was welfare reform, and what were its effects?
- C) TOPIC 14 SOCIAL INSURANCE AND SOCIAL SECURITY. Insurance market failure (because of moral hazard and adverse selection) as a reason for government social insurance type programs. How Social Security works in the US. Is there a Social Security solvency problem? What are the economic effects of Social Security?
- D) TOPIC 15 GOVERNMENT HEALTH CARE PROGRAMS. What is the role of government in the health care sector in the US? How much is spent? How does the US compare with other countries? How do Medicare and Medicaid work? The Affordable Care Act (Obamacare) and its effects.

VII State and Local Government Spending

- A) TOPIC 16 STATE AND LOCAL GOVERNMENT PROGRAMS. Local public goods, Education spending, inter-jurisdictional spillovers, Community choice, Fiscal federalism and government-to-government grants.