ECONOMICS 481
PUBLIC FINANCE

Fall 2001

The University of Michigan-Dearborn

CLASS MEETS: MWF 10:40-11:30 Room #1019 CB
INSTRUCTOR: B. Crowell
OFFICE: 2118 CASL Annex
PHONE: 436-9183; messages 593-5096
E-mail bcrowell@umd.umich.edu
OFFICE HOURS: MWF 8:00 – 8:30, 11:40-12:00 MWF and by appointment

UM.Coursetools:
Announcements, syllabus, and some course materials can be found at http://coursetools.ummui.umich.edu. Students need a campus unique name and password to access materials.

FINAL EXAMINATION: Friday, December 14, 2001 - 12:00-3:00 p.m.

IMPORTANT DATES TO REMEMBER:

September 18: Last day to add a course or drop course without record.
November 6: Last day to drop a course with record of a "W".
ECONOMICS 481

PUBLIC FINANCE

COURSE DESCRIPTION

Analysis of the role of government in the economy. Course examines theories of the need for and nature of
government intervention in economic activities. Includes analysis of public goods, externalities, taxation, state and local
finance, and models of public decision-making.

COURSE OBJECTIVES AND GRADING CRITERIA

It is expected that over the course of the semester the student will develop:

1. an understanding of the nature and scope of public sector economic activity,
2. a knowledge of the methodology and terminology of public finance,
3. an understanding of the conceptual, theoretical, and institutional bases for the economic analysis of issue
   and problems in public finance, and
4. the ability to analyze current issues and problems in public finance.

The University requires grades, the form and meaning of which are given on pp. 17-18 of the 1991-1993
University Announcement. Students enrolled in the course determine their grades by demonstrating on written
examinations, quizzes, homework assignments, papers and class discussions 1) an understanding of the assigned
readings, 2) a grasp of the material covered in class, and 3) an ability to question, analyze, and discuss issues in public
sector economics. Each student will have ample opportunity to display his/her progress in the course through
performances on three exams (multiple choice, short answer, & essay) and written assignments. There will be two hour
exams (100 points each) and a final. The final (200 points) is in two parts: the first covers new material introduced
since the second exam; the second asks questions of a more comprehensive nature. Exams are cumulative. There will
be one 100-point cost analysis paper. There may also be homework assignments and/or quizzes to aid the student in
preparing for exams. Work and assignments are graded on points; letter grades are not assigned. The final letter grade
range for the course will be based on the following scale:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>90%</td>
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<tr>
<td>B</td>
<td>80%</td>
</tr>
<tr>
<td>C</td>
<td>70%</td>
</tr>
<tr>
<td>D</td>
<td>60%</td>
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</tbody>
</table>

These figures are approximate; the instructor has been known to lower the scale when to do otherwise would
mean excessive chaos. The instructor may also offer possible extra credit and bonus points during the term. The grades
of +/- are given at the discretion of the instructor.

NONETHELESS:

1. If the grades are scaled downward, it will occur during the determination of the final grade -- not after
each exam.
2. A passing grade will not be given to a score of less than 50% of the total points possible.

3. The average grade given in this class is a C. To earn an A or B, a student must demonstrate consistently excellent or good work, respectively.

IMPORTANT NOTES

1. There will be no makeup of missed exams except in highly unusual and extenuating circumstances (as determined by this instructor).

2. Attendance is not required in this course. Any student that can pass the course by merely taking the exams and submitting the papers may do so. However, before jumping from the top of the Ren Cen in glee, it must be pointed out that statistics overwhelmingly have indicated a high correlation between the number of absences and low grades (the instructor routinely takes attendance in order to keep the statistics updated). Experience has demonstrated that class attendance and participation are beneficial to one's notes and reading assignments; the two are not always synonymous but instead are intended to complement each other.

NOTE WELL: Moreover, although a student's grade will not be deliberately lowered for excessive unexcused absences, there are certain things that he/she must know. This instructor will give such students:

1. no extra help;
2. no consideration concerning early exams or makeups;
3. no letters of recommendation; and
4. NO BENEFIT OF THE DOUBT IN MARGINAL/BORDERLINE CASES.

3. With respect to incomplete ("I") or "whatever happened to the semester" or "where have all the gut courses gone", this instructor is of an unsympathetic mind. An incomplete will be given only in extremely extenuating circumstances (again, as determined by this instructor). An "I" grade is never given for unsatisfactory work.

4. At least one week's notice (and usually more) will be given before an exam is given. Review sheets are in the course pack.

5. The Final Exam for this course will take place during the official Examination Period following the end of classes. The date and time can be found on page 10 in the official Schedule of Classes. If, with so much advance notice, you cannot manage to schedule your vacations, weddings and other auspicious occasions so as to accommodate the Final Exam, you would be well advised to drop the course forthwith.

6. This instructor takes a dim view of cheating, plagiarism, and any other violation of the Code of Academic Conduct (pp. 45-46, UM-D 1991-93 Announcement). The opportunity cost of violating the Code is high; the penalty is failure in the course.

7. "Watch out for flying chalk.” The instructor is known for throwing chalk when she has been out-joked.

8. Grades are not posted. Students wishing to know their final exam and course grades may submit a stamped, self-addressed envelope.
9. If the office hours don't fit your schedule, just make an appointment or stop by the office to see if I'm in.

SPECIAL NEEDS

Any student with special needs requiring extra assistance should report these needs to the instructor the first day of class. The University will make reasonable accommodations for persons with documented disabilities. Students should register with the Disability Resource Services Office located in Sounseling and Support Services, 1060 Umall. Eligible students who are not registered with the DRSO should do so within the first few days of the term.

REQUIRED READINGS

1. Marlow, Michael. Public Finance

2. Crowell, E. COURSEPACK

3. Study Guide to Marlow. OPTIONAL.

PLUS

4. The crucial prerequisite for this course is EC 302. Since the lectures presume a working knowledge of microeconomics concepts and analytical techniques, some students may need to refer to an intermediate text from time to time. Some commonly used texts include those by Call & Holahan, Mansfield, Glahe, Salvatore, and Truett & Truett, and Hymans. The library has some of these. HINT: Review usually is both necessary and beneficial.

5. Occasionally, an outside reading from the contemporary economic scene (e.g., articles from the WALL STREET JOURNAL, TIME, US NEWS & WORLD REPORT) may be assigned.

6. Students should make it a habit to read at least one QUALITY newspaper or one of the good weekly publications in order to keep up with the economic news. This instructor considers questions on current public finance/issues fair game on tests.

7. The library has many basic public finance texts (e.g. Herber, Bernard Herber, James Buchanan, John Due, Joseph Stiglitz, et al.). Students may want to consult some of these for further discussion of certain models.

IMPORTANT NOTE ABOUT READINGS
Students are responsible for all assigned readings in the text AND all lecture material in the coursepack. The coursepack includes not only the basic outline and graphs but also some selected written lecture notes. This material represents either 1) a review of material students should already know from EC302 and other economics courses, or 2) material that is fairly routine and of a descriptive nature. This material will not be discussed per se in class. The instructor assumes students will have read and studied this material before coming to class.

**COURSE OUTLINE**

<table>
<thead>
<tr>
<th>I. Introduction</th>
<th>READINGS</th>
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<tbody>
<tr>
<td>II. Nature and Scope of Public Sector Activity</td>
<td>1-2</td>
</tr>
<tr>
<td>III. Tools of Economic Analysis</td>
<td>2, 8-10, 22</td>
</tr>
<tr>
<td>A. Positive Economic Analysis</td>
<td></td>
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<tr>
<td>B. Normative Economic Analysis</td>
<td></td>
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<tr>
<td>IV. Review of Microeconomics</td>
<td>Review appropriate sections of an intermediate text.</td>
</tr>
<tr>
<td>A. Income &amp; Substitution Effects</td>
<td>Appendix (603-644)</td>
</tr>
<tr>
<td>B. General Equilibrium</td>
<td>Appendix, Ch. 3 (64-79)</td>
</tr>
<tr>
<td>V. Justification of Public Sector</td>
<td>3-5</td>
</tr>
<tr>
<td>VI. Public Expenditure Theory and Optimal Sectoral Balance Models</td>
<td></td>
</tr>
<tr>
<td>A. Cost-Benefit Analysis</td>
<td>14; Coursepack</td>
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<tr>
<td>B. Inter and Intrasector Balance</td>
<td>5-8</td>
</tr>
<tr>
<td>C. Political decision-making</td>
<td>6-7</td>
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<tr>
<td>VII. Case Studies</td>
<td>11-13</td>
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<tr>
<td>VIII. Principles of Taxation</td>
<td>15-16; Coursepack</td>
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<tr>
<td>XI. Debt Financing (if time)</td>
<td>17</td>
</tr>
</tbody>
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COURSE REQUIREMENTS

Quiz - Micro  
Hour Exam 1  100 points  
Hour Exam 2  100  
Final Examination  200 points  
  1. Cost-benefit analysis  100  
  2. Others  ?  
Possible Quizzes  ?  
Minimum Total Possible  500

GLOSSARY OF ABBREVIATIONS AND SYMBOLS*

B   benefit  
BL  budget line  
B/C  benefit/cost  
C  cost, consumption**  
CC  conflict curve, contract curve  
CBA  cost benefit analysis  
D,d,qd  demand  
E  equilibrium  
EB  Edgeworth Bowley Box  
FE,Y‡  full employment  
G,g  government, public sector  
GG  giffen good  
i  indifference curve, utility level, interest**, discount rate**  
I  investment  
I.G.  inferior good  
K  capital  
L,l  labor, leisure**  
M  money  
MSB,MSC  marginal social benefit/cost  
MRS  marginal rate of substitution  
MRTS  marginal rate of technical substitution  
MU, MDU  marginal utility, marginal disutility  
N,n,unN  employment, unemployment  
N.G.  normal good  
P  price  
PE  price effect  
PPB,PPC,PPF  product possibilities boundary, curve or frontier  
prodn  production  
PTB  production transformation boundary  
r  discount rate, rent**  
S,s,qs  supply
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tbody>
<tr>
<td>SE</td>
<td>substitution effect</td>
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<tr>
<td>SWF</td>
<td>social welfare function</td>
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<tr>
<td>T,t</td>
<td>tax, transfer**</td>
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<tr>
<td>TU</td>
<td>total utility</td>
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<tr>
<td>U</td>
<td>utility</td>
</tr>
<tr>
<td>UE,unN</td>
<td>unemployment</td>
</tr>
<tr>
<td>W,W&lt;sub&gt;m&lt;/sub&gt;,W&lt;sub&gt;r&lt;/sub&gt;</td>
<td>wage, money wage, real wage</td>
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<tr>
<td>X</td>
<td>exchange</td>
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<tr>
<td>Y,Y&lt;sub&gt;m&lt;/sub&gt;,Y&lt;sub&gt;r&lt;/sub&gt;</td>
<td>income</td>
</tr>
<tr>
<td>Y&lt;sup&gt;E&lt;/sup&gt;</td>
<td>income effect</td>
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<tr>
<td>?</td>
<td>profits</td>
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<tr>
<td>? change</td>
<td>increase, decrease</td>
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<tr>
<td>?</td>
<td>leads to</td>
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<tr>
<td>?</td>
<td>therefore</td>
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<tr>
<td>*</td>
<td>not all inclusive</td>
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<tr>
<td>**</td>
<td>depending on context of discussion</td>
</tr>
</tbody>
</table>

**NOTE:** Often a lower case letter refers to quantity supplied or demanded (e.g., n for quantity hired or employed).
Every student in this class has made an investment in his/her human capital by completing (hopefully) a bachelor's degree. This assignment addresses that investment. Each student in EC481 is expected to conduct a benefit-cost analysis of his/her baccalaureate degree. If a student anticipates completing a graduate degree, that should be built in or accommodated by the model. A thoughtful, well-organized analysis/presentation is expected.

RULES OF THE GAME

1. Assignments should reflect individual (not group) effort and planning. Independent effort will be recognized. This assignment allows for individuality of responses. That is, if 21 out of 21 students choose the same profession and the same discount rate, the range of comparison is significant. Grading of essays, papers, and problem sets always involves comparisons with both an acceptable norm and the quality of the other papers.

2. Each student should identify clearly the assumptions they are making, explain and justify the analytical techniques and decision-making rules he/she is using, and draw conclusions about his/her findings.

3. A "good faith" is expected. This means no "off the wall" and blanket assumptions such as "I never found a job" or "I married a rich widow/er" or "I never finished school."

4. Students should be resourceful, creative and realistic in the analysis. Students are not limited to library materials. Arguments, assumptions, and sources, however, must be justified and documented. Documentation need not be in the form of formal footnotes but must be presented clearly, specifically, and consistently. This means that a student cannot turn in a ten-page paper with three sources listed at the end but not related to specific material in the body of the text. There are any number of style manuals available which deal with proper documentation.

5. Limited bugging of librarians and others is acceptable but students should be able to carry out this assignment given ordinary library holdings and other resources in the community. Students are encouraged to use their ingenuity and research skills provided sufficient documentation (see 4) is included. However, asking other economics/management professors or students their opinion or advice is off limits; 1) this is not considered a good faith effort; 2) it is considered by this instructor to be a potential violation of the Academic Code of Conduct; 3) some professors might get the impression the 481 instructor is asking them to do her job; and 4) this instructor considers it just bad form.

6. Organization and clarity of presentation are important considerations in grading. Proper spelling, grammar, and punctuation are expected. Grading standards reflect this expectation.

7. This instructor is a firm believer in the Code of Academic Conduct. Violations of the Code will result in failure in the course. As students of economics will realize, this is a high opportunity cost.

8. All papers must be typed, double-spaced and with a 12-point font. Needless to say, all assignments should be neat and legible. Two copies must be submitted.

9. Point value: 100 points
Due date: no later than class time (10:40 p.m.), Monday, December 3, 2001
Late penalty: 15 points.
No papers accepted after class time, Wednesday, December 5, 2001.