

**NORTHEASTERN UNIVERSITY  
ECN G266, Economics of Government  
Fall 2008 Course Syllabus**

**Prof. Gregory Wassall**  
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### **Class Hours**

Tuesday, 4:30-7:30, in 117 Ryder Hall.

### **Office Hours**

Tuesday 2:00-4:00, Friday, 10:00-12:00, and by appointment at other times.

### **Course Materials in the Bookstore:**

Jean Hindricks and Gareth D. Myles, *Intermediate Public Economics*, (MIT Press, 2006).

Jonathan Gruber, *Public Finance and Public Policy*, 2nd ed. (Worth, 2007).

### **Course Materials on Reserve at Snell Library**

R. Douglas Arnold, Michael J. Graetz, and Alicia H. Munell (eds.), *Framing the Social Security Debate* (National Academy of Social Insurance, 1998).

Bryan Caplan, *The Myth of the Rational Voter* (Princeton University Press, 2006).

Richard Cornes and Todd Sandler, *The Theory of Externalities, Public Goods, and Club Goods*, 2<sup>nd</sup> ed. (Cambridge University Press, 1996).

Anthony J. Culyer and Joseph P. Newhouse, *Handbook of Health Economics*, Vol. 1A, (Elsevier, 2000).

Avenish Dixit and Barry Nalebuff, *Thinking Strategically* (Norton, 1991).

Edward J. McCaffery and Joel Slemrod (eds.), *Behavioral Public Finance* (Russell Sage Foundation, 2006).

Dennis C. Mueller, *Public Choice III* (Cambridge University Press, 2003).

John M. Quigley, and Eugene Smolensky, *Modern Public Finance* (Harvard University Press, 1994).

Joel Slemrod and Jon Bakija, *Taxing Ourselves*, 4rd ed. (MIT Press, 2008)

## Other Course Materials

In addition to the core readings, the reading assignments reference relevant articles which are also available on reserve or in the stacks in Snell Library or, in some instances, on line.

## Course Description

This course covers topics in the economics of government. We will primarily focus on the core concepts in this field: market failure and role of government, public choice, and taxation. In the remaining time available we will examine applied areas of government finance: social security and old age pensions, redistribution, government size and fiscal federalism.

## Course Requirements

Microeconomic Theory, ECN 3210, is a prerequisite to this course. It is assumed that students in this course have already taken ECN 3210 or its equivalent, or are currently taking it. Course requirements include a mid-term examination (40 percent of the final grade), a final examination (40 percent) and a class project (20 percent). The final exam is not cumulative.

Each project will be completed by groups of two students. It will include a class presentation plus an accompanying paper. I will provide a list of possible topics once the course begins. Once you have chosen a partner and a topical area, the readings and journal articles assigned below for that area should be the starting point of your research.

In grading your project, I will consider the quality of your presentation, your understanding of the subject matter, the level of sophistication of your analysis/discussion, and the comprehensiveness of your written treatment of the subject and bibliography. The paper is due on the last day of class. Students are asked to submit exams and papers on line.

All submissions are expected to be original work, and to meet criteria of academic honesty as outlined in the University Student Handbook. Failure to comply with this requirement on any assignment will result in, at the very least, a failing grade in the course.

## Readings and Assignments

The readings listed as required below should be considered as a minimum for successful completion of this course. As we cover each topical area, I will offer some guidance regarding the relevance of each reading. Power point information and related materials presented in class will be available on this course's Blackboard site. Students with deeper interests in certain areas (including, of course, your project topic) should pursue all readings in those parts of the syllabus more comprehensively.

<b>READING ASSIGNMENTS</b>	
<b><u>Week</u></b>	<b><u>Topic and Readings</u></b>
<b>9/16</b>	<b><u>The Public Sector</u></b>
<b>Required:</b>	Hindriks and Myles, Chapters 1, 3. Gruber, Chapters 1-4.
<b>9/23-10/7</b>	<b><u>Market Failure, Public Goods and Externalities</u></b>
<b>Required:</b>	Hindriks and Myles, Chapters 2, 5, 6, 7. Gruber, Chapters 5, 6, 7.
<b>Suggested:</b>	Cornes and Sandler, Chapters 1-4, 6. Mueller, Chapter 2.
<b>10/14-10/21</b>	<b><u>Public Choice</u></b>
<b>Required:</b>	Hindriks and Myles, Chapters 4, 10, 11. Gruber, Chapter 9.
<b>Suggested:</b>	Mueller, Chapters 4-14. A. Alesina, "Politics and Business Cycles in Industrial Democracies," <i>Economic Policy</i> 8 (April 1989) 55-98. Dixit and Nalebuff, Chapter 10, "The Strategy of Voting."
	<b><u>Mid-Term Examination</u></b>
<b>10/28-11/11</b>	<b><u>Taxation</u></b>
<b>Required:</b>	Hindriks and Myles, Chapters 14, 15, 16. Gruber, Chapters 18-25.
<b>Suggested:</b>	Slemrod and Bakija, Chapters 1-8. R. Arnott, "Reflections on Optimal Tax Theory," in Quigley and Smolensky. C. Mc Lure and E. Zodrow, "The Study and Practice of Income Tax Policy," in Quigley and Smolensky. T. Piketty and R.Saez, "How Progressive is the U.S. Federal Tax System?" <i>Journal of Economic Perspectives</i> 21 (Winter 2007), 3-24.

<u>Week</u>	<u>Topic and Readings</u>
<b>11/18</b>	<b><u>Income Redistribution</u></b>
<b>Required:</b>	Hindriks and Myles, Chapter 12.
	Gruber, Chapter 17.
<b>Suggested:</b>	R. Haveman and B. Wolfe, "Welfare to Work in the U.S.: A Model for Other Developed Nations?" <i>International Tax and Public Finance</i> 7 (2000): 95-114.
	G. Burtless, "The Economist's Lament: Public Assistance in America," <i>Journal of Economic Perspectives</i> 4 (1990), 57-78.
	R. Moffit, "Incentive Effects of the W.S. Welfare System: A Review," <i>Journal of Economic Literature</i> 30 (1992): 1-61.
<b>11/25-12/2</b>	<b><u>Social Security and Old Age Pensions</u></b>
<b>Required:</b>	Hindriks and Myles, Chapters 19-20.
	Gruber, Chapters 12-13.
<b>Suggested:</b>	P. Diamond, "The Economics of Social Security Reform," in Arnold, Graetz, and Munnell.
	P. Diamond and P. Orszag, "Saving Social Security," <i>Journal of Economic Perspectives</i> 19 (Spring 2005), 11-32.
	J. Gruber and P. Orszag, "Does the Social Security Earnings Tax Affect Labor Supply and Benefits Receipt?" <i>National Tax Journal</i> 56 (2003), 755-73.
<b>12/9</b>	<b><u>Health Care and Health Insurance</u></b>
<b>Required:</b>	Hindriks and Myles, Chapter 9.
	Gruber, Chapters 15-16.
<b>Suggested:</b>	D. Cutler and R. Zeckhauser, "The Anatomy of Health Insurance," in Culyear and Newhouse.
	Dardanoni and Wagstaff, "Uncertainty, Inequalities in Health and the Demand for Health," <i>Journal of Health Economics</i> 6, 1987: 283-286 only.
	S. Glied, "Managed Care," in Culyear and Newhouse.
	<b>Final Examination</b>