

NORTHEASTERN UNIVERSITY
Department of Economics

ECN G266, Economics of Government
Spring 2006 Course Syllabus

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Class Hours

Wednesday, 4-7, in 111 Dodge.

Office Hours

Tuesday, 2:30-4:30, and Wednesday, 1-3, and by appointment at other times.

Course Materials in the Bookstore:

John Cullis and Philip Jones, *Public Finance and Public Choice*, 2nd ed (Oxford University Press, 1998).

Harvey Rosen, *Public Finance*, 7th ed. (McGraw-Hill, 2005).

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).

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

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*, 2nd ed. (MIT Press, 2001)

Other Course Materials

In addition to the core readings, the reading assignments reference relevant articles which are also available on reserve in Snell Library or, in some instances, on line. On line are a number of references to policy research think tanks' web sites. Interesting readings are available there often as well; some will be referenced throughout the course.

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. The applied areas will be linked to class presentations and course papers.

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 (35 percent of the final grade), a final examination (35 percent) and a paper/class presentation (30 percent). The final is not cumulative.

The paper should focus in one of the applied areas noted above. It can consist of either an empirical study or a policy-based analysis. Once you have chosen a topical area, the readings and journal articles assigned for that area should be the starting point of your research. It would be appreciated if you would notify me of your choice of topic.

In grading your paper, I will consider the originality of your topic, your understanding of the subject matter, the level of sophistication of your analysis/discussion, and the comprehensiveness of your treatment of the subject and bibliography. This paper is due on the last day of class (**not** the day of the final exam). 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.

Blackboard Web Site for This Course

Every student is enrolled in the Blackboard web site for this course. Available at this site are an updatable syllabus, more information about this course, a weekly summary of class material, e-mail, and links to relevant readings on the web. The web site will contain regular updates.

Readings and Assignments

The readings listed as required below should be considered essential and a minimum for successful completion of this course. As we cover each topic, I will offer some guidance regarding the relevance of each reading. The assigned journal articles represent either classic pieces or recent quality applied research, and will be discussed, time permitting. Students with deeper interests in certain areas (including, of course, your paper topic) should pursue all readings in those parts of the syllabus more comprehensively.

Course Readings:

Week Topic and Readings

1/11-1/25 **Government and Market Failure**

Required: Cullis and Jones, Chapters 1-3.
Rosen, Chapters 1-5.

Suggested: Cornes and Sandler, Chapters 1-4, 6.
Mueller, Chapter 2.

2/1-2/15 **Public Choice**

Required: Cullis and Jones, Chapters 4.
Rosen, Chapter 6.
Mueller, Chapters 4-14.

Suggested: R. Mackay and C. Weaver, "Commodity Bundling and Agenda Control in the Public Sector", *Quarterly Journal of Economics* 97 (November 1983): 613-35.
T. Romer and H. Rosenthal, "Bureaucrats Versus Voters: On the Political Economy of Resource Allocation by Direct Democracy," *Quarterly Journal of Economics* 93 (1979): 563-87.

2/22-3/22 **Taxation**

Required: Cullis and Jones, Chapters 7, 8, 15, 16.
Rosen, Chapters 12-17, 19.

Suggested: Slemrod, Chapters 1-8.
R. Arnott, "Reflections on Optimal Tax Theory," in Quigley and Smolensky.
J. Hines, "Three Sides of Harberger Triangles," *Journal of Economic Perspectives* 13 (1999), 167-188.
C. Mc Lure and E. Zodrow, "The Study and Practice of Income Tax Policy," in Quigley and Smolensky.

3/8 **No class on March 8 - this is spring break week.**

3/29 **Local Government and Fiscal Federalism**

Required: Cullis and Jones, Chapter 12, sections 12.1-12.6.
Rosen, Chapter 20.

Suggested: W. Oates, "Federalism and Government Finance", in Quigley and Smolensky

Week Topic and Readings

4/5 **Government Size and Growth**

Required: Cullis and Jones, Chapter 14.
Mueller, Chapters 21, 22.

Suggested: T. Husted and L. Kenny, "The Effect of the Expansion of the Voting Franchise on the Size of Government," *Journal of Political Economy* 105 (1997), 54-82.
A. Meltzer and S. Richard, A Rational Theory of the Size of Government, *Journal of Political Economy* 89 (1981), 914-927.

4/12 **Income Redistribution**

Required: Cullis and Jones, Chapter 9.

Rosen, Chapters 7,8.

Suggested: R. Haveman and B. Wolfe, "Welfare to Work in the U.S.: A Model for Other Developed Nations?" *International Tax and Public Finance* 7 (2000): 95-114.
G. Burtless, The Economist's Lament: Public Assistance in America," *Journal of Economic Perspectives* 4 (1990), 57-78.
R. Moffit, Incentive Effects of the W.S. Welfare System: A Review," *Journal of Economic Literature* 30 (1992): 1-61.

4/19 **Social Security and Old Age Pensions**

Required: Rosen, Chapter 9.

Suggested: D. Bernheim, "The Economic Effects of Social Security: Toward a Reconciliation of Theory and Measurement," *Journal of Public Economics* 33 (1987), 273-304.
P. Diamond, "The Economics of Social Security Reform," in Arnold, Graetz, and Munnell.
J. Gruber and P. Orszag, "Does the Social Security Earnings Tax Affect Labor Supply and Benefits Receipt?" *National Tax Journal* 56 (2003), 755-73.

4/26 **Final Exam Week - Paper assignment and final exam due by 4/26.**