

**Economic Setting of Public Policy – U6600
Columbia University**

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Summer 2005
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Thursdays, 6:30 - 9:30

Required Textbooks:

1. Public Finance, Seventh Edition, by Harvey Rosen, McGraw-Hill, 2004.
2. Macroeconomics, Fifth edition, by N. Gregory Mankiw, Worth Publishing, 2004.
3. Determinants of Economic Growth: A Cross-Country Empirical Study, paperback edition, by Robert Barro, MIT Press, 1997.

Course Description: This course is designed to help students understand the interrelation between economic reasoning and public policy. The objective is to provide students with economic tools of analysis and to use these tools to analyze some of the important public policy issues of today. Calculus is generally not required, but we will review and utilize the fundamental concepts developed in intermediate courses in the economics of public finance and certain parts of macroeconomics.

Grading: Grades will be based on a mid-term exam (30%), a final exam (30%), class participation (10%), and quizzes (30%). The final will not be cumulative. There will be 4 quizzes, the dates of which are specified below. Only 3 of the 4 quizzes will count; your lowest quiz grade is dropped. The quizzes will be drawn from the questions specified below for the day of the quiz.

Part I: Fundamentals of Public Finance

May 19

Introduction + Public Good and Externalities Fundamentals

Readings:

Rosen, Chapters 4, 5

Questions:

What is a public good?

What is the free-rider problem?

What are externalities?

What is the common resource problem?

May 26

Tax Fundamentals - **Quiz #1**

Readings:

Rosen, Chapters 12, 13

Goolsbee, Austan. "The Implications of Electronic Commerce for Fiscal Policy (and Vice-Versa)." Journal of Economic Perspectives, Winter 2001, pp. 13-23.

Questions:

Explain the difference between the economic incidence and statutory incidence of a tax.

What is meant by the excess burden of a tax?

What is the inverse elasticity rule?

How do internet sales affect state sales tax revenue?

What is the incidence of the property tax?

Part II: Fundamentals of Growth and Macroeconomics

June 2

Macroeconomic Fundamentals

Readings:

Mankiw, Chapters 3, 10, 11

Questions:

Taking production as given, explain how the macro-economy adjusts so that supply equals demand.

What is the effect of an increase in the money supply on interest rates and output? An increase in government spending?

Explain how an increase in government spending might simply “crowd out” private investment.

June 9

Economic Growth Fundamentals - **Quiz #2**

Readings:

Mankiw, Chapters 7, 8 (Note: for fourth edition this is chapters 4, 5 on economic growth)

Charles Jones “On the Evolution of the World Income Distribution” Journal of Economic Perspectives, Summer 1997, pp. 19-36

Questions:

Why are some countries rich and others poor?

What is the engine of economic growth?

How can we explain real economic growth over time?

Do countries tend to converge in real per-capita income over time?

June 16

Empirical Evidence on Growth

Barro, Chapters 1, 2, and 3

Questions:

Does increased schooling increase economic growth?

Are countries converging in real per-capita income over time?

What is the impact of government spending and taxes on growth?

How are democracy and growth related?

Part III: Public Policy Applications

June 23

Mid-term Exam and Nonprofit Organizations

Readings:

Hansmann, Henry. “Economic Theories of Nonprofit Organizations,” Chapter 2 of The Nonprofit Sector: A Research Handbook. Ed. By Walter Powell, Yale University Press.

Rose-Ackerman, Susan. 1986. “Unfair Competition and Corporate Income Taxation.” Reprinted in The Economics of Nonprofit Institutions: Studies in Structure and Policy, ed. by S. Rose-Ackerman, New York: Oxford University Press.

Questions:

Why do nonprofit organizations exist?

Are nonprofits as efficient as for-profit firms?

Do nonprofits compete unfairly with for-profit firms?

What is the unrelated business income tax (UBIT)?

June 30

Cost/Benefit Analysis and Environmental Issues - **Quiz #3**

Readings:

Rosen, Chapter 11

A. Myrick Freeman III, "Environmental Policy Since Earth Day I: What Have We Gained?" Journal of Economic Perspectives, Winter 2002, pp. 125-146.

Wallace Oates, "A Reconsideration of Environmental Federalism." Draft. November 2000.

Questions:

How do economists determine whether a public project is worth doing?

Have the various environmental laws passed in the United States since 1970 been effective in reducing pollution?

What are the arguments for and against decentralized environmental regulation?

Is there a "race-to-the-bottom" in environmental standards?

July 7 - Quiz #4

Federalism and State and Local Finance

Readings:

Wallace Oates, "An Essay on Fiscal Federalism." Journal of Economic Literature. 1999. Pp. 1120-49.

John Siegfried and Andrew Zimbalist, "The Economics of Sports Facilities and their Communities." Journal of Economic Perspectives. Summer 2000. pp. 95-114.

Questions:

What is the Tiebout model?

What are the advantages and disadvantages of decentralized government?

Why are transfers used for state and local finance?

What problems might arise when decentralized governments are financed by transfers from the central government?

Do subsidies for sports stadiums work?

July 14

Education Finance and Property Taxes

Helen Ladd, "School Vouchers: A Critical View." Journal of Economic Perspectives, Fall 2002, pp. 3-24.

Derek Neal, "How Vouchers Could Change the Market for Education." Journal of Economic Perspectives, Fall 2002, pp. 25-44.

Questions:

What are the arguments for centralized and decentralized schools?

What are the arguments for and against vouchers?

July 21

Final Exam