

**Syllabus**

Fall 2016

Professor Hanming Fang

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**COURSE LOGISTICS:**

Class Meeting Time & Location: Mondays and Wednesdays 10:30-11:50am, Room: Fisher-Bennett Hall 401

Office Hours: Mondays 3:30-5:30pm, McNeil 429, and by appointment [Note: The office hours will be on Fridays 3-5pm in the weeks prior to second and third midterm exams, see below]

Teaching Assistant: Qing Gong (email: [qinggong@sas.upenn.edu](mailto:qinggong@sas.upenn.edu); Phone: 215-588-0372)

TA Office Hours and Office Location: Tuesdays 6pm-8pm, Thursdays 6-8pm, McNeil 332, and by appointment.

TA Review Sessions: To be announced in class as they are scheduled (approximately every other week) and will mostly use one of her office hour time slots.

**COURSE DESCRIPTION:**

**Prerequisites:** Econ 101 (intermediate micro theory), Math 104 (Calculus, Pat I) and Math 114 (Calculus Part II) or Math 115 (Calculus Part II with Probability and Matrices). Econ 103 (Statistics for Economists) is also recommended.

**Textbook:** (available at Penn Book Store or can be purchased online): David N. Hyman: *Public Finance: A Contemporary Application of Theory to Policy* (11<sup>th</sup> Edition). SouthWestern Press, 2014. [Note: The 10th edition of the book is a serviceable substitute]

**COURSE SYNOPSIS:**

The main goal of this class is to develop a set of tools for analyzing the role that government plays in the economy and the lives of its citizens. In particular, we will consider some reasons for government intervention in a market economy and study the impact of government expenditure programs and taxation systems on the welfare and behavior of its citizens. The course will cover a wide range of issues in public finance with a focus on current policy debates and issues. Topics covered will include the common use of natural resources, the environment, health care reform, social security, public assistance program, and taxation.

**CLASS CANVAS:**

We will use the class Canvas site: <https://canvas.upenn.edu/courses/1335023> for all postings of course materials, including problem sets and solutions, lecture notes, practice exams, and announcements.

## COURSE REQUIREMENT AND GRADING POLICY

Requirements for this class include three in-class midterm exams and five problem sets. Each exam will cover material from roughly a third of the class:

- The *first midterm exam* will be given in class on **October 5, Wednesday**;
- The *second midterm exam* will be given in class on **October 31, Monday**;
- The *third midterm exam* will be given on the final day of class, **December 12, Monday**.
- The *five problem sets* will be dispersed at regular intervals throughout the semester and will include problems indicative of those that will be used on the exams.

Please make sure that you schedule your travels, including job interviews, to **avoid the exam dates**. The policy regarding missing exams is described in Rules #8 and #9 in the class policy section of the syllabus.

- Additional credit may be given based on participation in the general class discussions on some marginal cases.
- As mentioned below in class Rule #1, if a student repeatedly fails to attend classes without proper excuses, he/she will receive a lower grade.

Grades for the class will mainly be based on these requirements in roughly the following proportions:

Problem Sets (5) (equally weighted)	25%
First In-Class Midterm Exam (October 5, Wednesday)	25%
Second In-Class Midterm Exam (October 31, Monday)	25%
Third In-Class Midterm Exam (December 12, Monday)	25%

In terms of course letter grades, the proportion of students receiving A+, A and A- grades varied slightly over years and have averaged about 40 percent in the past three years. The median grade for the course has always been B+. A+ is given only to students with exceptional performance in the class.

## CLASS SCHEDULE AND READING ASSIGNMENTS

- [1]. **August 31:** Background/Introduction

Reading: Chapter 1

### **Part I: The Economics Basis for Government Activity**

- [2]. **September 7:** Free Market and Efficiency: Review of First Theorem of Welfare Economics

Reading: Chapter 2

- [3]. **September 12 & 14:** Externalities, and Government Interventions: Coase Theorem; Markets for Pollution Rights

Readings: Chapter 3

Additional Readings:

- Robert Stavins (1998): "What Can We Learn from the Grand Policy Experiment? Lessons for SO<sub>2</sub> Allowance Trading." *Journal of Economic Perspectives*, Vol 12, No. 3, 69-88.
- Josh Barro, *Don't Want Me to Recline My Airline Seat? You Can Pay Me*. New York Times, August 27, 2014.

- [4]. **September 19:** Public Goods and the Free Riding Problem.

Readings: Chapter 4.

Additional Readings:

- John Tierney: "A Tale of Two Fisheries", NY Times Magazine, August 28, 2000.

- [5]. **September 21 & 26:** How Are Public Policies Made? Public Choice and Political Economy.

- Readings: Chapter 5.

- [6] **September 28:** Review and discussions for Part I.

- [7]. **October 5 (Wednesday): First In-Class Midterm (covering Part I): Note the date for the first exam is not in chronological order.**

### **Part II: Selected Issues of Government Expenditures and Policy in the United States**

- [8]. **October 3:** Government Support Programs for the Poor

Reading: Chapter 7

Additional Readings:

- Hanming Fang and Michael Keane (2006): “Assessing the Impact of Welfare Reform on Single Mothers,” Brookings Papers on Economic Activity, 2004, Volume 1, 1-116.
- Welfare reform A patchy record at 20, *The Economist*, August 20, 2016
- Poverty in America: No money no love, *The Economist*, August 20, 2016

[9]. **October 10 & 12:** Social Security

Reading: Chapter 8

Additional Reading:

- Martin Feldstein: Structural Reform of Social Security. *Journal of Economic Perspectives*, Spring 2005, page 33-55.

[10]. **October 17:** Other Social Insurance Programs

Reading: Chapter 8

Additional Readings:

- Martin Feldstein: Rethinking Social Insurance. NBER Working Paper

[11]. **October 19 & 24:** Health Care and Health Care Reform

Readings: Chapter 9

Additional Readings:

- Paul Howard and Stephen T. Parente (2010). "Toward Real Health Care Reform." *National Affairs*, 2010.
- Milton Friedman (2001). "How to Cure the Health Care". *The Public Interest*. Winter 2001.
- Paul Krugman, Health Care Reform Myths. March 12, 2010, *NY Times*.
- John H. Cochrane, *After the ACA: Freeing the market for health care*. October 18, 2012

[12]. **October 26:** Review and discussions.

[13]. **October 31 (Monday): Second In-Class Midterm Exam (covering Part II)**

### Part III: Government Revenue and Government Debts

[14]. **November 2:** Introduction to Taxation

Reading: Chapter 10

[15]. **November 7 & 9:** Theory of Tax Incidence

Reading: Chapter 11

- [17]. **November 14:** Budget Balance and Government Debt: Facts  
Reading: Chapter 12
- [18]. **November 16:** Theory of Income Taxation  
Reading: Chapter 13
- [19]. **November 21:** U.S. Personal Income Tax System in Practice  
Reading: Chapter 14
- [20]. **November 28:** Taxation of Corporate Income  
Reading: Chapter 15
- [21]. **November 30:** Taxation of Consumption and Sales  
Reading: Chapter 16  
Additional Reading:
- *Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System.* Report of the President's Advisory Panel on Federal Tax Reform, November 2005.
  - *The Moment of Truth*, REPORT OF THE NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM. December 2010. [Known as *Erskine Bowles and Alan Simpson* Report]
  - Martin Feldstein, *Raise Taxes, but Not Tax Rates*, New York Times Op-Ed, May 4, 2011.
- [22]. **December 5: Taxation on Wealth, Property and Estates**  
Reading: Chapter 17  
Additional Reading:
- Wojciech Kopczuk (2010). "Economics of Estate Taxation: A Brief Review of Theory and Evidence." NBER Working Paper 15741.
- [23]. **December 7: Review and Discussions.**
- [24]. **December 12 (Monday): Third in-Class Midterm Exam (covering Part III).**

## Class Policies for Econ 231 (Fall 2016)

### 1. **Attendance:**

Attendance of lectures is required. If a student repeatedly fails to attend classes without proper excuses, the student will receive a lower grade. I understand that some of you may have to schedule a must-do interview and miss a class. Please let me know beforehand for permission.

### 2. **Cooperation:**

You may discuss homework assignments with each other; however, each individual must submit a separate homework assignment (i.e. *write/type up your own answers, no copies*), and each individual will be separately graded on the assignment. You may not cooperate while taking exams.

### 3. **Aids During Exams:**

All exams are closed book. You may not communicate or cooperate with anyone on the exam.

### 4. **Format of Assigned Work:**

All homework assignments and term paper must be typed. All hand written answers to exam questions should be legible. Spelling, grammar, style, etc. do not "count" per se. However, anything that the TA or I cannot read or understand is wrong. Poor spelling, grammar, style, etc are often confusing.

### 5. **Lateness:**

Due and return dates for assignments will be announced in class. These dates are binding. Late assignments are not accepted without either proper arrangement and compelling, verifiable reason.

### 6. **Return of Homeworks and Exams:**

Homeworks and exams will be returned to you during class. You are responsible for picking them up.

### 7. **Re-grade requests:**

A request for a re-grade of a problem set or an exam must be submitted to me in writing. In such a case, I will reevaluate your *complete* homework set or exam.

### 8. **Exam Attendance Policy:** I follow the economics department's policy on exam attendance. Please see

<https://economics.sas.upenn.edu/undergraduate-program/course-information/guidelines/policies> for details. The policy is copied below:

"In cases where attendance at a midterm or a final exam is mandatory, there are only a few valid excuses for missing an exam. They are:

- Three exams scheduled within one calendar day (for final exams ONLY!) This policy of 3 exams does not count for midterm exams given during class time.

- An exam is given outside of the regular class schedule and the timing conflicts with another class in which the student is enrolled.
- Observance of a university-recognized religious holiday.
- UPENN Business that takes you away from campus. Absence from campus on UPENN business includes, for example, athletic events in which you are actively participating. In such cases, you need to make arrangements with your professor ahead of the exam date to take the exam at another time (preferably earlier than the schedule date).
- An illness/health emergency.
- A death in your family.
- Documented disabilities that allow you to take the exam under other circumstances.

Examples of reasons that are **not** valid for missing an exam are:

- job interviews;
- job internships;
- beginning fall or spring break early or returning after a scheduled exam;
- end of semester early flights;
- any other reason you would prefer not to be at the university when the exam is scheduled.

*Students are responsible for making sure, at the beginning of the term, that they can attend the exams. Registering for a course means that you certify that you will be present for the exam (unless one of the explicitly stated exceptions above arises.)*

If you are unexpectedly ill at the time of the exam and unable to reach the instructor ahead of time, then you can give notification of your illness as soon as you are able. Do not take an exam if you are ill and then expect to have an opportunity to retake the exam because you were ill the first time and did poorly.

Students who arrive late to an exam will generally be required to hand in their exam at the same time as other students.”

#### 9. **Make-up Exams:**

There are no make-up written exams. However, if you have one of the valid excuses listed above for missing a midterm, your next midterm will be worth 50% of your grade if the one you missed is either the first or the second midterm. If your missed exam is the third midterm, then I will administer an oral exam to replace it.

10. **Documents distributed during this course, including those posted on Canvas site are only for students enrolled in this course. Any re-posting online is prohibited.**