

**Public Finance: Resource Allocation and Fiscal Policy
Economics 4904**

This course addresses the issues of resource allocation and fiscal policy in terms of the equity and efficiency of the allocation of social resources. It covers the standard forms of market failure such as externalities and public goods and explores how the correction of market failures is the source of efficiency gains, with attention to the implications of second-best theory and the role of values in policy analysis. The course addresses the costs and benefits of government policy not only with the usual problem sets and examinations but also with written assignments that culminate in an applied policy analysis paper.

Prerequisites

Introductory Microeconomics (Econ 1110), Introductory Macroeconomics (Econ 1120), and Intermediate Microeconomics (Econ 3030, formerly Econ 3130). This course complements The Microeconomics of Government (Econ 4260).

Texts

The readings for this class are available either as links on the course website or are on reserve. A useful supplement for the more technical material is Boardman, Greenberg, Vining, and Weimer's *Cost-Benefit Analysis*, copies of which are available on reserve at Uris and Mann.

Office Hours

My office hours will be held in Uris 484 on Mondays and Tuesdays from 10:45 to 11:45 and by appointment if you cannot make those times. If you would like to set up an appointment, please send me an email at gb293@cornell.edu listing three or four times you are available over the following several days so that I can choose one. If you think that at some point in the future you would like for me to write a letter of recommendation for you for jobs, graduate school, or the like, please do stop by office hours so that my recommendation can be both more substantive and personal.

Note to students with disabilities: If you have a disability-related need for reasonable academic adjustments in this course, provide me with an accommodation letter from Student Disability Services. Students are expected to give two weeks' notice of the need for accommodations. If you need immediate accommodation, please arrange to meet with me before the beginning of class or at least within the first two class meetings.

Academic Integrity

Each student in this course is expected to abide by Cornell's Code of Academic Integrity (<http://cuinfo.cornell.edu/Academic/AIC.html>) and Cornell's Code of Campus Conduct (<http://www.dfa.cornell.edu/treasurer/policyoffice/policies/volumes/governance/campuscode.cfm>). Violations will be taken seriously. In my experience, students are tempted to violate the code when they are concerned about their course grade. If you are concerned to that degree, please talk to me or an academic advisor. This course is designed to reward effort, and I can help you obtain useful resources if needed.

Students agree that by taking this course all required papers may be subject to submission for textual similarity review to Turnitin.com for the detection of plagiarism. All submitted papers may be included as source documents in the Turnitin.com reference database solely for the purpose of detecting plagiarism of such papers. Use of the Turnitin.com service is subject to the Usage Policy posted on the Turnitin.com site.

Please note that videotaping, photographing, audiotaping, or otherwise making any picture or sound recording of an instructor is not permitted without the instructor's written consent. Failure to comply with this rule is a violation of Cornell's Campus Code of Conduct. Moreover, students are not authorized to replicate, reproduce, copy or transmit such materials, or "derivative" materials, including class notes, for sale or general distribution to others without the written consent of the faculty, academic staff member, or class participant who is the original source of such materials; and that Violations of the above constitute academic misconduct as described in the Code of Academic Integrity.

Assignments and Grading

There is an unusually large number of assignments for this class because you will be learning the material in both the standard fashion with problems sets and examinations and also through writing assignments. Note that the written assignments, with the exception of those done in class, should be typed.

Class Participation. You will be expected to attend class and to actively participate in class discussions. There will be occasional in-class writing assignments that will not be separately graded but will be considered part of class participation. Class participation will be 15% of the course grade.

Reading Responses. The five written responses will allow you to reflect on selected readings and to consider them using the tools and concepts developed in the course. While you will be encouraged to consider specific issues, generally your response should address whether the reading addresses the relevant issues with appropriately from a public finance perspective. There is no formal page requirement for the responses, but I expect that you will need about two pages to explore your ideas. The responses will be due either the previous evening on the course website or at the start of class. In either case, you should bring a printed copy for your use during our discussion of the article. Late submissions will not be accepted. Also, these are supposed to be your own responses

to the readings, so you are expected to do them on your own. Grading for each will be on a check-plus (10), check (9), check-minus (7), and zero basis. Each response is worth 1% of the course grade.

Problem Sets. There will be four problem sets collectively worth 8% of the course grade. Unlike with the reading responses, you may work together on them, but all students must turn in their own work on the assignments. Problem sets submitted late will be penalized and may receive zero credit. Grading is on a check-plus (10), check (9), check-minus (7), zero (0) basis. The problem sets may include problems that will be identified as not being graded.

Examinations. There will be two examinations in the course. The first will be given in class on October 8. The second preliminary examination will be given in class on November 12, with a strong emphasis on material since the first preliminary examination. Make-up examinations will not be offered. If you have an excused absence, you must let me know in advance that you will not be taking the examination, you should provide documentation if it is available, and your other assignments will be given additional weight. Students are expected to remain in the examination room during examinations, so if you have a medical or other reason why you are not able to do so, please let me know as soon as possible. The examinations are each worth 16% of the course grade.

Written Assignment. The purpose of this multi-stage assignment is to apply the tools developed in the course to a public policy issue of your choice. It is intended to offer a large degree of flexibility. You may analyze the totality of a simple policy or you may analyze a single aspect of a large policy issue, such as intergenerational discounting in climate change policy. Many policy issues have of course been studied previously, so it is often appropriate to extend or critically evaluate a previous analysis. Some of the questions you may wish to address in your paper are the following. What is the economic rationale for policy-making in the area? What are the relevant market failures? What are the distributional implications? How do value judgments affect the conclusion? This is an independent project; you may not work together. There are eight parts of the assignment.

- *Project Description.* The project description is a brief treatment of the question you intend to answer and how you intend to answer it. In your description, you should address the evidence, techniques, and arguments you expect to use. Simply saying that you plan to study a subject is not sufficient. The main criterion for evaluation of the project description is whether you have convincingly explained how your project will use the tools and concepts of the course in a feasible manner. The description should also be written well in terms of syntax and grammar. The project description is due on September 17, and it is worth 4% of the writing assignment grade. Note that we will spend the previous class period discussing the assignment.
- *Conceptual Exploration.* In this assignment you will address the role of government action in the area you are studying. In a clearly-written paper about two to three pages in length, you should briefly survey the literature on the subject

and address the relevant market failures. If you are doing a cost-benefit analysis, you should enumerate the relevant costs and benefits and explain why you think they matter. The assignment is due on October 1, and it is worth 8% of the assignment grade.

- *Reverse Outline.* Find a paper similar to what you are interested in and generate an outline for it. Which of the questions are answered in which sections? The reverse outline is due on October 15, and it is worth 5% of the assignment grade.
- *Outline.* In this assignment you are building the structure of your paper in outline form. It should specify the sections of your paper and describe the content that will be in each section. Typically, outlines are two to four pages long. The outline will be evaluated on the coherence and structure of its argument, the treatment of public finance, and the clarity of exposition. A paper written following your outline should successfully meet the requirements of the course. The outline is due on October 20, and it is worth 18% of the assignment grade.
- *Draft.* The draft is your first complete attempt at writing the paper. With a good outline, your focus can be on continuing to refine your analysis and on clearly and effectively communicating your findings. Be clear about the assumptions you have made, and be sure to note if other reasonable assumptions would change your conclusions. The draft is due on November 5, and it is worth 22% of the assignment grade.
- *Peer Reviews.* You will be reading the drafts of two other students in the class and evaluating them in terms of content and structure. You will have time in class to discuss these comments with your group but most of your comments should be conveyed through writing so that we can collectively discuss common issues that arose. The peer reviews are due on November 17, and they are each worth 4% of the assignment grade.
- *Final Paper.* The final version of the paper is the culmination of the writing project. You should present the results of your analysis in a manner that is thorough, convincing, and clear. You should engage with the comments you have received on your previous work. The paper is due on November 24th and is 25% of the writing assignment grade.
- *Revision Statement.* Your statement on revision should describe some of the ways your paper has changed over time and during your revisions. Explain how and why your research question evolved. What advice did you find helpful? What did you learn from the exercise as a whole? The revision statement is 10% of the assignment grade.

Course grades follow a 100 point scale of A 94-100, A- 90-93, B+ 87-90, B 83-87, B- 80-83, etc. The grade of A+ will be awarded for exceptional performance.

Category	
Class Participation	15%
Problem Sets	8%
Responses	5%
Examination I	16%
Examination II	16%
Writing Assignment	40%

Course Outline

I. Introduction

Lecture 1 (8/25) Syllabus, Main Issues, Three Gorges

Quah, Euston and Raymond Toh. 2011. "The Three Gorges Dam Project, China." *Cost-Benefit Analysis: Cases and Materials*, pages 101-105.

Lecture 2 (8/27) Standing, Externality, Lenses

In-class writing

Lecture 3 (9/1) Article Discussion

Hahn, Robert, Paul C. Tetlock and Jason Burnett. "Should You Be Allowed to Use Your Cellular Phone while Driving?" *Regulation* 23(3), 2000.

Response 1 due.

II. Welfare and Market Failure

Lecture 4 (9/3) Public Goods, Distributional Weights, Social Welfare

Kelman, Steven. "Cost-Benefit Analysis: An Ethical Critique" *AEI Journal on Government and Society Regulation*, Jan./Feb. 1981, 33-40.

Livermore, Michael A. and Jennifer S. Rosenberg. "The Shape of Distributional Analysis," in *The Globalization of Cost-Benefit Analysis in Environmental Policy*, Michael A. Livermore and Richard L. Revesz (eds.), 2013.

Lecture 5 (9/8) Welfare Continued

Lecture 6 (9/10) Market Power: Monopoly, Oligopoly, Monopsony

Lecture 7 (9/15) Discussion of Topics and Successful Past Projects

In-class writing

Problem Set 1 due.

Lecture 8 (9/17) Public Goods Theory

“Wealth Levels, Wealth Inequality, and the Great Recession”

In class writing

Topic description due.

Lecture 9 (9/22) Externalities, Pigouvian Taxes, and Second-Best Theory

Richard S. Markovits, Second-Best Theory and Law & Economics: An Introduction, 73 *Chi.-Kent. L. Rev.* 3 (1998).

Lecture 10 (9/24) Article Discussion

Don Fullerton & Gilbert E. Metcalf, Environmental Taxes and the Double-Dividend Hypothesis: Did You Really Expect Something for Nothing, 73 *Chi.-Kent. L. Rev.* 221 (1998). Available at: <http://scholarship.kentlaw.iit.edu/cklawreview/vol73/iss1/6>
Response 2 due.

Lecture 11 (9/29) Article Discussion

Stiglitz, Joseph. “Tapping the Brakes: Are Less Active Markets Safer and Better for the Economy?”

Problem Set 2 due.

Lecture 12 (10/1) Article Discussion

Vining, Aidan and David L. Weimer. “An Assessment of Important Issues Concerning the Application of Benefit-Cost Analysis to Social Policy.” *Journal of Benefit-Cost Analysis* Volume 1, Issue 1, 2010.

Lecture 13 (10/6) Asymmetric Information and Health Care

Gruber, Jonathan. “The Impacts of the Affordable Care Act: How Reasonable Are The Projections?” *National Tax Journal*, September 2011, 64 (3), 893–908.

Elmendorf, Doug. “Estimating the Budgetary Effects of the Affordable Care Act.” Blog Post.

Holtz-Eakin, Douglas and Michael J. Ramlet. “Health Care Reform Is Likely To Widen Federal Budget Deficits, Not Reduce Them,” *Health Affairs*, June 2010, 29(6) 1136-1141.

Conceptual Exploration due.

Lecture 14 (10/8) Examination I

III. Valuation

Lecture 15 (10/15) Secondary Markets

“Do Economists Reach a Conclusion on Subsidies for Sports Franchises, Stadiums, and Mega-Events?” by Coates and Humphries

In-class writing

Reverse Outline due.

Lecture 16 (10/20) Market-Based Valuation

Lecture 17 (10/22) Article Discussion

Sussman, Fran, Christopher P. Weaver, and Anne Grambsch. "Challenges in Applying the Paradigm of Welfare Economics to Climate Change." *Journal of Benefit-Cost Analysis*. Volume 5, Issue 3, 347–376, January 2015.

Outline due.

Lecture 18 (10/27) Non-Market Valuation

Hausman, Jerry. Contingent Valuations: From Dubious to Hopeless. *Journal of Economic Perspectives* 26 (4), Fall 2012, 43-56.

Problem Set 3 due.

In-class writing.

Lecture 19 (10/29) Article Discussion

Sunstein, Cass. The value of a statistical life: some clarifications and puzzles. *Journal of Benefit-Cost Analysis*. Volume 4, Issue 2, 237–261, July 2013.

"What is a Life Worth?" by Brannon

Response 3 due.

Lecture 20 (11/3) Intertemporal Discounting

Moore, Mark A., Anthony E. Boardman and Aidan R. Vining. "More appropriate discounting: the rate of social time preference and the value of the social discount rate," *Journal of Benefit-Cost Analysis* 4(1), 1–16, 2013.

Draft due.

Lecture 21 (11/5) Discussion of Drafts

Problem Set 4 due

Lecture 22 (11/7) Valuation in Developing Countries

Amend, Marcos, Leonardo Fleck, and John Reid. "Improving Cost-Benefit Analysis in the Assessment of Infrastructure Projects in the Brazilian Amazon," in *The Globalization of Cost-Benefit Analysis in Environmental Policy*, Michael A. Livermore and Richard L. Revesz (eds.), 2013.

Lecture 23 (11/12) Examination II

V. Conclusions

Lecture 24 (11/17) Peer Review Meetings and Discussion

Peer Reviews due.

Lecture 25 (11/19) Article Discussion

"Pricing the Priceless: Cost-Benefit Analysis of Environmental Protection" by Heinzerling and Ackerman.

Response 4 due.

Lecture 26 (11/24) Article Discussion

Anderson, Elizabeth. Chapter 7 of *Value in Ethics and Economics*.

Nussbaum, Martha. "The Costs of Tragedy: Some Moral Limits of Cost-Benefit Analysis," *Journal of Legal Studies* 29(2), 1005-1036.

Final Paper due.

Lecture 27 (12/1) Article Discussion

Ostrom, Elinor. "Beyond Markets and States: Polycentric Governance of Complex Economic Systems," *American Economic Review*, Vol. 100, No. 3 (June 2010), pp. 641-672.

Response 5 due.

Lecture 28 (12/3) Discussion of Revision Statements

Revision Statement due.