

PPS 304 (and ECO 338)  
Fall 2014  
Wednesday/Friday: 1:25-2:40  
Rubenstein Hall 153

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**Office hours:** Wednesday 3:30-5:30 pm

## **Economics of the Public Sector – Fall 2014**

This course covers the basic economics of the public sector. In particular, we explore if, why, and how the public sector should involve itself in public policy. We will discuss core microeconomic concepts, but apply them to practical and pertinent policy issues. Students should be familiar with concepts from an introductory microeconomics course (either PUBPOL 303 or ECON 201). Students with weak backgrounds in economics should read the assigned materials carefully before class. This class does not require any calculus; all of the math that we use will be basic algebra, graphs, or spreadsheet calculations. While there are no formal discussion classes for the course, the TAs and I are available in office hours to provide additional assistance if needed.

### **Required readings**

The following required textbook is available in the Duke textbook store and online:

Harvey Rosen and Ted Gayer, *Public Finance, 8th Edition, 2008*.

Several Kennedy School cases are also required both for in class discussions and assignments. You should purchase these directly through the Kennedy School Case program using the case number that I will provide to you. Each case will cost you \$3.95.

Many of the other required readings are from online news articles that are easily searchable online. You should obtain these articles and readings on your own.

Any other required readings (journal articles, special reports, etc.) are available through Sakai under Resources by topic.

### **Teaching assistants**

Rebecca Kaplan – [rebecca.s.kaplan@duke.edu](mailto:rebecca.s.kaplan@duke.edu). Thursday 11:00-12:00.

Yi Yang – [yi.1398.yang@duke.edu](mailto:yi.1398.yang@duke.edu). Monday 1:00-2:00.

## **Course Requirements**

*Class participation (10 percent).* You are expected to attend class, and come prepared to discuss policy applications and readings. There are certain classes specifically designated as “Discussion classes” or “Part discussion classes”, where discussion questions will be disseminated before class. Sometimes additional work such as brief written responses to discussion questions will be required, and the quality of this work will contribute to this grade.

I understand that some students may feel uncomfortable by the prospect of regularly being required to speak up in class. For such students, you may choose to write a 250-400 word blog on the readings and the discussion topic. The blog must be posted by 8 pm on the day preceding class. If you choose this option, you will be exempt from cold calling, and you will be graded on the quality of the blog rather than your discussion contribution in class.

*Assignments (20 percent).* There will be six assignments throughout the semester, designed to test you on what you have learned in class and in the readings, as well as to apply economic concepts to different situations. You may work with classmates on these assignments, but you must write and hand in your own answers. These assignments are due at the beginning of class. You must hand in all seven assignments, but your lowest grade will be dropped.

*Policy memos (20 percent).* You will write four policy memos through the semester. You may not discuss these memos with other students, until after they have been turned in.

*Midterm (20 percent).* The midterm will cover the first three topics on the syllabus.

*Final Exam (30 percent).* The final exam is cumulative.

## **Late Policy**

Unless you have obtained written consent from me prior to a due date, late work will not be accepted.

## **Grade Policy**

Requests for grade changes must be made in writing and submitted to me (with the original assignment or test) no later than one week after grades are posted. I will only change grades for documentable grading errors.

## **In Class Policy**

I will post outlines of lecture slides for you to take notes on before class. You should print these and bring them to class. Please refrain from using laptops, tablets, cellphones, etc. in class.

**Duke's Community Standard (<http://integrity.duke.edu/new.html>)**

“Duke University is a community dedicated to scholarship, leadership, and service and to the principles of honesty, fairness, respect, and accountability. Citizens of this community commit to reflect upon and uphold these principles in all academic and non-academic endeavors, and to protect a culture of integrity.

To uphold the Duke Community Standard:

I will not lie, cheat, or steal in my academic endeavors;

I will conduct myself honorably in all my endeavors; and

I will act if the Standard is compromised.”

**Course Syllabus** (Note items with an asterisk (\*) are located on Sakai)

**Wednesday, Aug. 27. Introduction and overview**

***Topic 1: Role and size of government***

**Friday, Aug. 29. Size of government, budget and deficit.**

R&G Ch. 1. Introduction, especially pp. 7-14

R&G Ch. 20. Deficit finance (pp. 462-472)

Michael Cooper and Mary Williams Walsh, "Mounting Debts by States Stoke Fears of Crisis," *New York Times*, Nov. 2010.

**Wednesday, Sept. 3. Discussion Class.**

\*Congressional Budget Office, 2012. *Choices for Deficit Reduction*. (pp. 20-26)

"Entitlements in America," *The Economist*. May 25<sup>th</sup>, 2013.

"Tax Burden for Most Americans Is Lower Than in the 1980s," *New York Times*, Nov. 29, 2012.

"How the Tax Burden Has Changed," *New York Times*, Nov. 29, 2012.

\*Committee for a Responsible Federal Budget, "Raising Revenue from High Earners Through Base Broadening," Nov. 15, 2012

**Memo 1 due.**

## *Topic 2: Efficiency and Equity Criteria*

### **Friday, Sept. 5. Normative analysis: Efficiency and Equity.**

R&G Ch. 3. Tools of Normative Analysis. (This material should be review for many of you. Please let me know if it is not review. The analytic constructs of budget constraints, indifference curves and constrained maximization are important for this course. If you are unfamiliar with these concepts, you should read this chapter very carefully before you come to class and, if necessary, follow up with the TAs after class.)

R&G Ch. 12. Income Redistribution: Conceptual Issues (pp. 258-270).

### **Wednesday, Sept. 10. Normative analysis: Efficiency and Equity. Part discussion class.**

Matthew C. Klein, "Tax Reformers Must Kill Subsidies for the Rich," *Bloomberg View*, May 29, 2013.

Darrick Hamilton, "Race, Wealth and Intergenerational Poverty," *The American Prospect*, August 14, 2009.

## *Topic 3: Market Failures and Policy Solutions*

### **Friday, Sept. 12. Public goods.**

R&G Ch. 4.

R&G Ch. 22. Public Finance in a Federal System (pp. 508-519)

**Assignment 1 due.**

### **Wednesday, Sept. 17. Negative externalities and policy solutions. Part discussion class.**

Case: Post Office Square Park (Kennedy School Case C16-93-1231.0)

R&G Ch. 5. Externalities.

### **Friday, Sept. 19. Externalities: Education policy. Discussion class.**

R&G Ch. 7. Education.

\*Helen F. Ladd, "Introduction and Overview" and ch. 5 (Conclusion) of *Market-Based Reforms in Urban Education* (Economic Policy Institute, 2002).

Stephanie Simon, "Vouchers don't do much for students," *Politico*, October 6, 2013.

**Wednesday, Sept. 24. Externalities: Environmental policy & beginning of Imperfect Competition. Discussion class.**

N. Gregory Mankiw. "A Carbon Tax That America Could Live With," *The New York Times*, August 31, 2013.

Laura D'Andrea Tyson. "The Myriad Benefits of a Carbon Tax," *The New York Times*, June 28, 2013.

Christopher Joyce. "Worries Over Water As Natural Gas Fracking Expands," *NPR*, August 2, 2011.

**Assignment 2 due.**

**Friday, Sept. 26. Imperfect Competition: Vaccines. Part discussion class.**

Ted Talk: Thomas Pogge. "Medicine for the 99 percent."

Case: Vaccines for the Developing World: The Challenge to Justify Tiered Pricing (Kennedy School Case C14-98-1450.0)

**Wednesday, Oct. 1. Imperfect Information & Social Insurance.**

R&G Ch. 9. The Health Care Market.

Robert H. Frank. "For Obamacare to Work, Everyone Must Be In," *New York Times*, August 3, 2013.

**Friday, Oct. 3. Imperfect Information: Microfinance. Part discussion Class.**

\*Jonathan Murdach, "The Microfinance Promise," *Journal of Economic Literature*, Vol. XXXVII. (December 1999), p. 1569-1614

Podcast. David Roodman: "Due Diligence: An Impertinent Inquiry into Microfinance."  
<http://www.cgdev.org/media/david-roodman-due-diligence-impertinent-inquiry-microfinance>

**Wednesday, Oct. 8. Social insurance: pensions and social security. Part discussion class.**

R&G Ch. 11. Social Security.

Paul Krugman, "Confusions about Social Security," *The Economist's Voice* 2, 1 (2005).

"Retirement benefits: Who pays the bill?" *The Economist*, July 27, 2013.

**Memo 2 due.**

**Friday, Oct. 10. Medicare and Medicaid. Discussion class**

R&G Ch. 10 (pp. 206-221). Government and the Market for Health Care.

Joseph Antos. “The Wyden-Ryan proposal – a foundation for realistic Medicare reform.”  
<http://www.aei.org/article/health/healthcare-reform/the-wydenryan-proposal-a-foundation-for-realistic-medicare-reform/>

Henry J. Aaron, Judy Feder and Paul Van de Water, The Case Against Premium Support for Medicare, Dec. 16, 2011. <http://www.brookings.edu/research/papers/2011/12/16-against-premium-support-aaron>.

James C. Capretta, “The Case for Competition in Medicare.” Backgrounder, Heritage Foundation, September 12, 2011.

*Topic 4: Inequality & Welfare*

**Wednesday, Oct. 15. Inequality & Welfare.**

R&G Chapter 12 (pp. 270-275). Income Redistribution: Conceptual Issues.

R&G Chapter 13. Expenditure Programs for the Poor.

**Friday, Oct. 17. Catch Up and Review.**

**Assignment 3 due.**

**Wednesday, Oct. 22. Midterm Exam.**

**Friday, Oct. 24. Inequality & Welfare. Discussion Class.+ Intro to CBA**

\*Laura B. Rawlings and Gloria M. Rubio. “Evaluating the Impact of Conditional Cash Transfer Programs.” The World Bank Research Observer. Vol. 20(1). (Spring 2005), p. 29-55

Podcast. Planet Money: Episode 451.

<http://www.npr.org/blogs/money/2013/04/12/177063399/episode-451-why-some-people-love-tax-day>

“Won’t Work for Food Stamps,” Review & Outlook, WSJ.com, Sept. 20, 2013.

“In Defense of Food Stamps,” Politics and Ideas, WSJ.com, Nov. 6, 2013

“Food Stamps, Fairness and Too Much of a Good Thing,” Letters, WSJ.com, Nov. 12, 2013

### *Topic 5: Cost Benefit Analysis*

#### **Wednesday, Oct. 29. Introduction to Cost Benefit Analysis**

R&G Chapter 8 (pp. 150-160). Cost-Benefit Analysis.

Podcast. Planet Money: Episode 388.

<http://www.npr.org/blogs/money/2012/07/20/157105414/episode-388-putting-a-price-tag-on-your-descendants>

\*David A. Long, Charles D. Mallar, and Craig V.D. Thornton, "Evaluating the Benefits and Costs of the Job Corps," *Journal of Policy Analysis and Management* (Fall 1981): 55-76.

#### **Friday, Oct. 31. CBA 2: Valuation and distributional issues.**

R&G Chapter 8 (pp. 167-173). Cost-Benefit Analysis

Podcast. Planet Money: Episode 411.

<http://www.npr.org/blogs/money/2012/10/19/163256866/episode-411-why-preschool-can-save-the-world>

### *Topic 5: Tax Policy*

#### **Monday, Nov. 3. Assignment 4 due by 5 pm. (Note: you will use the results from assignment in Memo 3)**

#### **Wednesday, Nov. 5. Introduction to taxes and tax incidence.**

R&G Ch. 15. Taxation and Efficiency.

R&G Ch. 16. Efficient and Equitable Taxation.

David Altman. "To Reduce Inequality, Tax Wealth, Not Income," *New York Times* opinion, Nov. 18, 2012

#### **Friday, Nov. 7. CBA 3. Discussion Class. (out of order to give you time on your memo)**

Case: Bridge over the Tempisque River (Kennedy School Case C18-95-1292.0)

**Memo 3 due.**



**Wednesday, Nov. 12. Taxation and behavioral responses.**

R&G Ch. 18. Personal Taxation and Behavior.

Richard H. Thaler. "It's Time to Rethink the Charity Deduction," *New York Times*, Dec. 18, 2010.

\*James R. Hines Jr. "Taxing Consumption and Other Sins," *Journal of Economic Perspectives*, Vol. 21 (1). (Winter 2007), p. 49-68.

**Friday, Nov. 14. Tax Reform. Part Discussion Class.**

R&G Ch. 21. Fundamental Tax Reform: Taxes on Consumption and Wealth.

Michael J. Graetz. "We Need a Simpler and Fairer Tax System," *New York Times* opinion, Jan. 24, 2013.

Linda Sugin. "Tax Labor and Investments Equally," *New York Times* opinion, Jan. 23, 2013.

Alan D. Viard. "Replace the Income Tax With a Progressive Consumption Tax," *New York Times* opinion, Jan. 23, 2013.

Alan J. Auerbach. "Tax Policies That Are Fair and Generates Revenue," *New York Times* opinion, May 24, 2013.

**Assignment 5 due.**

**Wednesday, Nov. 19. Tax Policy. Discussion Class.**

Case: A Commuter Tax for New York City (Professor Yinger—Maxwell School)

**Memo 4 due.**

*Topic 7: Behavioral Economics*

**Friday, Nov. 21. Behavioral Economics**

Steven Levitt and John List, “Homo economicus Evolves.” *Science*. Vol. 319, 15 February 2008, p. 909-910.

Ted Talk: Dan Ariely, “Are we in control of our own decisions?”

[http://www.ted.com/talks/dan\\_ariely\\_asks\\_are\\_we\\_in\\_control\\_of\\_our\\_own\\_decisions](http://www.ted.com/talks/dan_ariely_asks_are_we_in_control_of_our_own_decisions)

Podcast. Freakonomics: Riding the Herd Mentality.

<http://freakonomics.com/2012/06/21/riding-the-herd-mentality-a-new-freakonomics-radio-podcast/>

**Wednesday, Nov. 26. THANKSGIVING.**

**Friday, Nov. 28. THANKSGIVING.**

**Wednesday, Dec. 3. Behavioral Economics 2. Discussion Class.**

Case: Corporate Average Fuel Economy Standards 2017-2015 (Kennedy School Case 1973.0)

**Friday, Dec. 5. Catch up and Review.**

**Assignment 6 due.**

**Final Exam – Sunday, Dec 14, 2:00-5:00.**