

# Economics of the Public Sector

College of William & Mary

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## **Objective:**

Government is involved in many sectors of the economy either by providing goods and services (e.g. education and social security) or through regulation. This class examines situations where markets fail to provide the most efficient outcome (given a society's overall goals). The government can often provide a solution to fix these "market failures", but other solutions also exist. This class explores the set of available solutions. Some will be theoretically optimal but practically infeasible. Others will be viable but may stand in stark contrast to the existing arrangement. The goal of this class is to identify market failures, identify potential solutions, and further our understanding of the ways in which society trades efficiency for equity.

Public economics can be rather theoretical (math-based) or rather applied/empirical (data-based). This course will use both sets of tools to study government's actual policies.

Here are some of the questions that we'll look at:

- Why should government have any role in economic decisions?
- When do markets fail?
- How might government (or other actors) attempt to solve market failures?
- How does government decide what to do?
- What are the broader impacts of governments' actions? Does government successfully alleviate market failure?

## **Textbook:**

My lectures loosely follow the 4<sup>th</sup> edition of "Public finance and public policy" by Jon Gruber. However, the content and emphasis can deviate substantially, and so the textbook should largely be viewed as a recommended reference. Thus, earlier editions or other textbooks can be used as a substitute.

## **Grading:**

- 5% - Quizzes
- 5% - Discussion questions
- 15% - Referee reports
- 35% - Midterm
- 40% - Final

Grades will be curved to match the typical William & Mary grade distribution. (See: <http://www.wm.edu/offices/registrar/studentsandalumni/studentrecords/transcripts/transkey/index.php#stats>). Re-grading of any sort will only be considered during the first week after the assignment/test is returned.

**Quizzes:** There will be five quizzes throughout the semester (dates listed below). These quizzes are designed to provide you with immediate feedback on your understanding of the mathematical models covered in class. They are worth 5 points each, and you are guaranteed 4 points for taking the quiz. The final point is awarded for arriving at the correct answer.

**Discussion Questions:** Throughout the course I will cover a number of empirical studies. All papers can be downloaded [here](#). It is important to recognize that academic articles are not always accessible to a general audience. The purpose of the in class readings is to prepare you for the referee reports. Some questions you should be ready to answer are: What is the question the authors are looking to answer? What answer do they arrive at? Why is the question important? What kind of variation are they using to answer that question? Are there any concerns with this approach? Feel free to also take notes (and bring up) things that you thought were unclear or not convincing. In addition this, you will be asked to submit two discussion questions relating either to the reading or to the broader topic. **The due dates are specified in the tentative schedule below, but are subject to change. In general you will need to submit the questions by 3pm the day before we cover material related to the reading.**

**Referee Reports:** There will be two assigned referee reports worth 10% each. A supplemental document on the referee report guidelines is available on blackboard. A referee report concisely (3 pages double spaced) summarizes and constructively critiques an article.

**Exams:** There is one midterm and one final exam. Each exam will be administered in class on the dates specified below. Make-up exams are only possible under extreme circumstances (e.g. car accident, imprisonment, health related emergency) and with sufficient proof (e.g. a note from a doctor or sheriff). I reserve the right to determine whether the circumstance and proof are sufficient.

## **Course Conduct:**

### **Expectations for discussions**

Many of the topics discussed in class will not have a right answer as we will explore policies that often involve trading off efficiency for equity. The extent to which we as individuals are willing to make that trade-off is typically informed by personal experiences, beliefs, and the interaction of the two. Some topics may be highly personal, the source of intense disagreement, or both! Nevertheless it is important to recognize that the classroom is a safe space in the sense that everyone is welcome and encouraged to contribute, and all students should expect that their ideas will be treated with respect and that the discussion will always remain civilized.

### **Disruptive Behavior Policy:**

The college defines disruptive behavior as: “Disrupting or obstructing the normal living and work environments of other members of the College community of the functions or activities of the College.” Learning, the core function of the College, requires attention and focus. The use of technology for extracurricular purposes during class is highly disruptive to the instructor, disrespectful, immature, and distracts from class discussions. Put simply, it undermines the educational environment and hinders learning. Moreover, numerous experimental studies have shown that personal technologies lower performance in the class and generate negative externalities. Accordingly, **this course has a strict ban on ALL personal technology, including cell phones, laptops, and tablets.** Failure to abide by this policy may result in permanent dismissal and/or disenrollment from the course for disruptive behavior.

Upon the first offense students will be issued a verbal warning in class. Upon the second offense, the student will be dismissed from class. Should a third offense arise, I will initiate the process to have you disenrolled from the course.

**Technology Exemptions:** Any student may petition for an exemption to the policy by emailing me by the end of the second week. Additionally, some circumstances may arise such that it is necessary for you to monitor your phone during class. These one-off exemptions will only be granted if communicated to me before the start of class. To prevent the negative externalities associated with the use of technology, any student with an exemption is expected to use the technology as inconspicuously as possible.

### **Office hours and other instructor access:**

My office hours are specified at the top of the first page of this syllabus. **You do not need to schedule an appointment to see me during these times.** I will also try to answer emails within one business day (meaning not at night or on the weekends).

### **College Policies:**

Students are expected to adhere to the college honor code (see, in particular, Section 7 on honor code violations). Students are encouraged to collaborate with each other throughout the semester, but exams must be completed individually and without aid from outside resources.

It is the policy of The College of William & Mary to accommodate students with disabilities and qualifying diagnosed conditions in accordance with federal and state laws. **Any student who feels s/he may need an accommodation** based on the impact of a learning, psychiatric, physical or chronic health diagnosis **should contact the Student Accessibility Services staff at 757-221-2509 or at [sas@wm.edu](mailto:sas@wm.edu).** SAS staff will work with you to determine if accommodations are warranted, and if so, to help you obtain an official letter of accommodation. For more information please see [www.wm.edu/sas](http://www.wm.edu/sas). **If this applies to you, please do this as soon as possible. The first test is in four weeks and it will take time to approve the request, formulate a plan, and communicate that plan to me.**

**Tentative course schedule:** The timing of the topics may change, quiz and discussion questions are tied to the day in which we cover the topic, but exam dates are firm so plan accordingly.

| Week | Date | Topic   | Readings                          | Assignments                              |
|------|------|---|-----------------------------------|--|
| 1    | 1/16 | <b>No Class: I'll be giving an academic seminar</b> |                                   |  |
| 2    | 1/21 | <b>No Class: Martin Luther King, Jr Day</b>         |                                   |  |
| 2    | 1/23 | Overview of Course; Theory Refresher                | Ch. 2.1                           |  |
| 3    | 1/28 | Theory & Empirical Refresher                        | Ch. 3; Angrist and Krueger (2001) |  |
| 3    | 1/30 | Empirical Refresher                                 |                                   | Quiz 1                                   |
| 4    | 2/4  | Tax Incidence and Tax Fairness                      | Ch. 4; Ch. 19                     |  |
| 4    | 2/6  | Debt Financing                                      | Grembi et al. 2016                | Discussion Question 1                    |
| 5    | 2/11 | Welfare and Inequality                              |                                   |  |
| 5    | 2/13 | Welfare and Inequality                              | Ch 2.2; Ch. 17                    |  |
| 6    | 2/18 | Welfare and Inequality (empirics)                   | Hoynes and Schanzenbach (2009)    | Discussion Question 2                    |
| 6    | 2/20 | Externalities                                       | Ch. 5                             | Quiz 2                                   |
| 7    | 2/25 | Externalities                                       |                                   |  |
| 7    | 2/27 | <b>Midterm</b>                                      |                                   | Ref report 1 due 3/1: Aizer et al (2016) |
| 8    | 3/4  | <b>No class -- Spring break</b>                     |                                   |  |
| 8    | 3/6  | <b>No class -- Spring break</b>                     |                                   |  |
| 9    | 3/11 | Education   | Ch. 11                            |  |
| 9    | 3/13 | Education   | Hoxby (2000)                      | Discussion Question 3                    |
| 10   | 3/18 | Public Goods  | Ch. 7                             | Quiz 3                                   |
| 10   | 3/20 | Public Goods  | Gerber, Green, Larimer (2008)     | Discussion Question 4                    |
| 11   | 3/25 | Political Economy                                   | Ch. 9                             |  |
| 11   | 3/27 | Political Economy                                   | Ch. 9                             | Quiz 4                                   |
| 12   | 4/1  | Political Economy (empirical)                       | Beach and Jones (2016)            | Discussion Question 5                    |
| 12   | 4/3  | Insurance Primer                                    | Ch. 12                            |  |
| 13   | 4/8  | <b>No Class: I'll be giving an academic seminar</b> | Ch. 14                            |  |
| 13   | 4/10 | Health Insurance                                    |                                   | Quiz 5                                   |
| 14   | 4/15 | Worker's Compensation and Disability                | Ch. 13                            |  |
| 14   | 4/17 | Social Security                                     |                                   |  |
| 15   | 4/22 | Social Security                                     |                                   |  |
| 15   | 4/24 | Catch-up/Review                                     |                                   | Ref report 2 due: Kose et al. (2018)     |

**Bonus:**

The Freakonomics podcast tends to cover a lot of academic research relating to the topics we discuss in class. Below are links to episodes (organized by topic) that I found particularly interesting. If you have podcast (or other) recommendations I am always happy to hear them!

On the importance of empirical research

[The White House gets into the nudge business](#)

Taxation

[How can tiny Norway afford to buy so many Teslas?](#)

Inequality

[Is the American dream really dead?](#)

[Would a bucket of cash really change your life?](#)

[Is the world ready for a guaranteed basic income?](#)

[How safe is your job?](#)

Externalities

[Regulate this!](#)

Education

[Is America's education problem really just a teacher problem?](#)

[Does early education come too late?](#)

Public goods

[Are the rich really less generous than the poor?](#)

Political economy

[If mayors ruled the world](#)

Risk and uncertainty

[How to save \\$1 Billion without even trying](#)

Healthcare

[How do we know what really works in healthcare?](#)

[Are you ready for a glorious sunset?](#)