

# Economics of the Public Sector

College of William and Mary, Spring 2016  
M/W/F 12:00-12:50pm  
Wren, Room 200

Professor: Brian Beach  
Email: bbbeach@wm.edu  
Office: 258 Tyler Hall  
Office Hours: T/W 1:30-3:00pm

## **Objective:**

Government is involved in many sectors of the economy either by acting as the provider of the good/service (e.g. education and social security) or through regulation. In this class we will study situations where markets fail to provide the most efficient outcome (given a society's overall goals). These situations are the primary motivation for government intervention as government can often provide a solution to fix market failures. Of course, other solutions exist and so we'll discuss those solutions as well.

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 generally follow the 4<sup>th</sup> edition of "Public finance and public policy" by Jon Gruber. Lectures will often deviate in terms of both content and emphasis, 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:

- 10% - Quizzes
- 20% - Problem sets
- 35% - Midterm
- 35% - Final

All 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 several quizzes throughout the semester. The purpose of these quizzes is to provide you with immediate feedback on your understanding of the mathematical models covered in class. The quizzes will be graded on the following three point scale: 3 points for a correct answer, 2 points for a methodologically correct answer that is incorrect because of algebraic mistakes, 1 point for attempting the problem, and 0 points for missing the quiz. There will be no make-up quizzes, but I will drop your lowest quiz grade.

**Problem sets:** There will be four graded problem sets assigned during the semester (I will also post additional ungraded practice problems). These problem sets are intended to help you develop the analytical skills presented in class. You are welcome to work in groups (4 max), but I would encourage you to try each problem independently before compiling a final “group” version, as learning how to formulate your own solutions and explanations is a valuable component of the problem sets. Problem sets will be graded on the following three point scale:

- Three points will be awarded when all problems are completed and the solutions are generally correct aside from minor mistakes.
- Two points will be awarded when a problem set clearly shows effort on all of the problems but the wrong path was taken on one or two questions.
- One point will be awarded when a problem set is incomplete or otherwise shows a lack of effort.
- Zero points will be given for problem sets that are not turned in on time. No late problem sets will be accepted as solutions for each problem set will be posted immediately after the problem sets are due.

**Tests:** There will be one midterm exam and a final exam. Each test will be administered in class on the dates specified below. Make-up tests 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.

## 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. Exams, however, must be completed individually and without aid from other 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**. 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:**

<b>Week</b>	<b>Date</b>	<b>Topic</b>	<b>Assignments</b>
1	8/24	Syllabus and overview of course	
1	8/26	Theory refresher	
2	8/29	Financing government activity	
2	8/31	Tax incidence	
2	9/2	Tax incidence	
3	9/5	Optimal taxation	
3	9/7	Welfare and inequality	Quiz 1
3	9/9	Welfare and inequality	
4	9/11	Welfare and inequality	
4	9/14	Welfare and inequality	
4	9/16	<b>No class -- I'll be at an academic conference</b>	
5	9/18	Externalities	
5	9/21	Externalities	
5	9/23	Externalities	Quiz 2
6	9/25	Externalities	
6	9/28	Externalities	
6	9/30	Education	
7	10/2	Education	
7	10/5	Education	Quiz 3
7	10/7	<b>REVIEW</b>	
8	10/9	<b>No Class -- Fall Break</b>	
8	10/12	<b>MIDTERM</b>	Midterm
8	10/14	Public and common goods	
9	10/16	Public and common goods	
9	10/19	Public and common goods	
9	10/21	Public and common goods	
10	10/23	Political economy	
10	10/26	Political economy	Quiz 4
10	10/28	Political economy	
11	10/30	Health care	
11	11/2	Health care	
11	11/4	Health care	
12	11/6	Unemployment insurance	Quiz 5
12	11/9	Disability insurance	
12	11/11	Worker's compensation	
13	11/13	Social security and social security reform	
13	11/16	Social security and social security reform	
13	11/18	Special topic 1	
14	11/20	<b>No class -- I'll be at an academic conference</b>	
14	11/23	No Class -- Thanksgiving Break	
14	11/25	No Class -- Thanksgiving Break	
15	11/27	Special topic 2	Quiz 6
15	11/30	Flex	
15	12/2	Review	
	12/13/16	<b>FINAL EXAM 9-12:00PM</b>	Final