

# Economics of the Public Sector

College of William & Mary

M/W/F 12-12:50pm

Blair, Room 223

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Office Hours: M/W 11am-12pm TH 12-1pm

## **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 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). The purpose of these quizzes is to provide you with immediate feedback on your understanding of the mathematical models covered in class. The quizzes 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:** Both of the articles that you are asked to referee as well as the other five readings that you are required to read 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. Essentially a referee report is a short (3 pages double spaced) report that summarizes and constructively critiques an article.

**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.

**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. 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.**

**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.

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?](#)

**Tentative course schedule:** The timing of the topics may change, but quiz and exam dates are firm so please plan accordingly.

Week	Date	Topic	Readings	Assignments
1	8/30	Syllabus and overview of course		
1	9/1	Theory refresher	Ch. 2.1	
2	9/4	Empirical refresher	Ch. 3	
2	9/6	Taxing and borrowing	Ch. 4; Ch. 19	
2	9/8	Taxing and borrowing		
2	9/10		<i>Grembi et al. (2016)</i>	<i>Discussion questions</i>
3	9/11	Taxing and borrowing		Quiz 1
3	9/13	Welfare and inequality	Ch. 2.2; Ch. 17	
3	9/15	<b>No class -- I'll be at an academic conference</b>		
4	9/18	<b>No class -- I'll be at an academic conference</b>		
4	9/20	Welfare and inequality		
4	9/21		<i>Hoynes and Schanzenbach (2009)</i>	<i>Discussion questions</i>
4	9/22	Welfare and inequality		
5	9/25	Externalities	Ch. 5	
5	9/27	Externalities		
5	9/29	Externalities		
6	10/2	Externalities		Quiz 2
6	10/4	Externalities		
6	10/6	Education	Ch. 11	
7	10/8		<i>Hoxby (2000)</i>	<i>Discussion questions</i>
7	10/9	Education		
7	10/11	Education		Quiz 3
7	10/13	REVIEW		Ref report 1 due
8	10/16	<b>No Class -- Fall Break</b>		
8	10/18	<b>MIDTERM</b>		
8	10/20	Public and common goods	Ch. 7	Midterm
9	10/22		<i>Green et al. (2008)</i>	<i>Discussion questions</i>
9	10/23	Public and common goods		
9	10/25	Public and common goods		
9	10/27	Public and common goods		
10	10/30	Public and common goods		
10	11/1	<b>No class -- I'll be at an academic conference</b>		
10	11/3	<b>No class -- I'll be at an academic conference</b>		
11	11/6	Political economy	Ch. 9	
11	11/7		<i>Beach and Jones (2016)</i>	<i>Discussion questions</i>
11	11/8	Political economy		
11	11/10	Political economy		Quiz 4
12	11/13	Insurance, risk, and uncertainty refresher		
12	11/15	Health insurance and healthcare reform		
12	11/17	Health insurance and healthcare reform		
13	11/20	Health insurance and healthcare reform		
13	11/22	<b>No Class -- Thanksgiving Break</b>		
13	11/24	<b>No Class -- Thanksgiving Break</b>		
14	11/27	Unemployment insurance		
14	11/29	Disability and worker's compensation		
14	12/1	Disability and worker's compensation		Quiz 5
15	12/4	Social security		
15	12/6	Social security		
15	12/8	REVIEW		Ref report 2 due
	12/15	<b>FINAL EXAM 9-12:00PM</b>		<b>Final</b>