

**PPL 813**  
**Section 1**

**Public Finance**

Spring 2013  
W 3:00-5:50  
A222 Wells

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Office hours: W 2:00 p.m.-3:00 p.m.  
and by appointment

PPL 813 is a course in the economics of public finance, defined to include much of "welfare economics" and the governmental functions of adjusting resource allocation and income distribution through spending and taxation. We will study government spending and taxation primarily from the perspective of microeconomic analysis. While we will devote most of our time to the analysis of Federal issues, we will also cover the major state and local public finance issues with application to Michigan.

Readings: The required text for the course is Public Finance and Public Policy by Jonathan Gruber, 4<sup>th</sup> edition, 2013. It is ok if you want to use the third edition (2011), but you will want to make sure assigned problems are the same.

The textbook has a companion website with some helpful, free student resources (like quizzes) at [http://bcs.worthpublishers.com/gruber3e/#t\\_544924](http://bcs.worthpublishers.com/gruber3e/#t_544924).

I will also post other required readings on our Angel course web site; I will let you know what material you are responsible for at the beginning of the previous class and via Angel email.

We will be using readings from the following organizations, among others, that post up-to-date analyses of current national policy issues:

The Brookings Institution – Economic Studies ([www.brookings.edu](http://www.brookings.edu))  
The Tax Policy Center: [www.taxpolicycenter.org](http://www.taxpolicycenter.org)

We will use these two sources for up-to-date Michigan information:

The Citizens' Research Council ([www.crcmich.org](http://www.crcmich.org))  
The Center for Michigan ([www.thecenterformichigan.net](http://www.thecenterformichigan.net))

This is an exciting time to study public finance as the stagnant recovery continues to challenge a second Obama administration and the Federal Reserve. There is still disagreement about whether the U.S. stimulus package was big enough, but recently the IMF admitted it did not do enough. What will be involved in the debt ceiling negotiations? States have contracted heavily – they are facing pension liabilities that are much larger than they have planned for.

I encourage you to read a daily newspaper in addition to *The State News*, like the *New York Times* or *Wall Street Journal*. We will begin most classes with a short discussion of current events.

**Requirements:** While we have a lot of material to cover, at this level we can also learn a lot from in-class discussion. Consequently, 10 percent of your grade will be **class participation**. This can be earned through assigned problem presentation and through informal class discussion. Please make sure you fill out your id card so I can learn your names and become familiar with your background and interests.

Since we meet once a week, it is important that you review past material and read ahead to take advantage of our class time together. Each week I will post readings on Angel for the next class. There will be a **quick 10 minute quiz** each class (except the first class and the day of the midterm) to provide ongoing feedback on your understanding of the material. These quizzes will cover past material and current assigned reading. There will be a total of 13 quizzes – I will drop the lowest quiz score. These quizzes will constitute 20 percent of your final grade.

The **midterm** will be in class on February 27<sup>th</sup>. It will be closed book and constitute 30 percent of your final grade. The **final** is Wednesday, May 1<sup>st</sup> from 3-5 and constitutes 40 percent of your final grade. To recap:

Class participation	10%
Quick quizzes	20%
Midterm	30%
Final	40%

There will be no make-up quizzes. You must have a valid excuse to reschedule the midterm. You must contact me before the event, and provide written documentation of the problem. If you have a valid excuse for a midterm, you may take the midterm early, or your remaining exams may be re-weighted – I will not give make-up midterms after the exam. Without a valid excuse, a zero will be recorded for the missed exam.

If you have a special need that you would like accommodated either in class or during exams, please see me as soon as possible with your documentation from the Resource Center for Persons with Disabilities so we can make a plan.

## **1. Introduction: Government and the Economy**

Current topic: What is public economics? Why study public finance now?

Readings:

Gruber Chapter 1.

Steuerle, "Who Does What? The Changing Shape of U.S. Federalism," Appendix in The Government We Deserve, Urban Institute Press, 1998.

Video: Dead Men Ruling: The Decline of Fiscal Democracy in America, January 4, 2013. <http://www.urban.org/publications/500291.html>.

## **2. Theoretical Tools of Public Finance**

Current topics: Elasticity, demand and supply curves, budget constraints, percents, percentiles, percentage points.

Readings:

Gruber Chapter 2 and Appendix.

## **3. Budget Analysis and Finance**

Gruber Chapter 4

Gale: Fiscal cliff avoided, but at what cost?

[http://www.brookings.edu/events/2011/0817\\_deficit\\_committee](http://www.brookings.edu/events/2011/0817_deficit_committee)

## **4. Externalities and Government Policy**

Gruber Chapters 5 and 6

Current topics: Pollution, traffic congestion, alcohol abuse, obesity.

Tax Policy Center Tax Topics: Quick Facts on Cap-and-Trade Policies to Reduce Carbon Emissions

[http://www.taxpolicycenter.org/taxtopics/quickfacts\\_cap-and-trade.cfm](http://www.taxpolicycenter.org/taxtopics/quickfacts_cap-and-trade.cfm).

Tax Policy Center: Tax Policy Briefing book, “Taxes and the Environment”  
<http://www.taxpolicycenter.org/briefing-book/key-elements/environment/index.cfm>

“On the Merits of a Carbon Tax,” Ted Gayer, U.S. Senate Testimony 12/2/09

Soda taxes: Who would be affected by soda taxes?; The Battle over Taxing Soda, NYT Leonard; Failure of state soda tax reflects power of anti-tax message,” NYT

## **5. Public Goods**

Should local governments pay for professional sports facilities?

Gruber Chapter 7

## **6. Cost-Benefit Analysis**

Valuing time and lives saved. How much do you value sea life in the Gulf of Mexico? Present discounted value.

Gruber Chapter 8

## **7. Social Insurance and Social Security**

Current topic: What can you expect to receive from Social Security?  
(See the [www.ssa.gov](http://www.ssa.gov) pension calculator.)

Gruber Chapters 12 and 13

## **8. Health Insurance**

Gruber Chapters 15 and 16

## **9. Income Redistribution and Expenditure Programs for the Poor and Not-so-poor**

Gruber Chapter 17

Current topic: Subsidies for college education; agriculture subsidies

## **10. Principles of Tax Analysis**

Gruber Chapters 18, 19, and 20 (20.1 and 20.2)

Current topic: the deadweight loss of subsidies; Farm subsidies data base:  
[www.ewg.org/farm/](http://www.ewg.org/farm/)

Tax Facts: [www.taxpolicycenter.org/TaxFacts/](http://www.taxpolicycenter.org/TaxFacts/)

## **11. The U.S. Revenue System: Taxes on Labor Supply, Savings, and Wealth**

Gruber Chapters 21, 22, and 23

## **12. Public Finance in a Federal System**

Gruber Chapters 10 and 11

Current topic: Michigan's Fiscal Future; Funding Michigan K-12 Education  
Papke Conference Notes, CRC publications.

[www.thecenterformichigan.net](http://www.thecenterformichigan.net)

## **13. Tax Reform** (time permitting)

Gruber Chapter 25

Current topics: The case for a Flat Tax; Internet Sales Taxation; Taxation of services