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MA Program in Applied Economics
The Johns Hopkins University

AY 2006 – 2007
Spring Semester
Washington, D.C.
01/02/07

Public Sector Economics

Course Outline

The course analyzes the role of the state in an economy, including particularly its manifestation as a service, or welfare, state. The first part presents the theory of collective economic activity, the economic theories of justice, democracy, and bureaucracy, and the theory of tax incidence. The second part of the course uses the tools developed in the first part to analyze specific governmental institutions, expenditure programs, and taxes. U.S. practice is primary, but it is put into some comparative international perspective.

Course Requirements

Students should obtain a broad understanding of the theoretical issues covered, and broad factual knowledge of the practical issues covered. In addition, students should specialize in one of the subjects treated in the course. A midterm and a final exam count for 1/3 of the grade each; and a very short research essay, preferably empirical, of 2000 words or so, counts for the remaining 1/3 of the grade. A one paragraph paper proposal, to include references and sources, and graded as part of the paper, is due with the midterm exam at week 8. The paper itself is due one week after the final exam. Class participation is welcome any time.

Contact

Tue/Wed, from 11 AM, 1717 Mass. Ave, 7th floor, or, more likely, sitting outside, smoking.
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Textbooks and Readings

Arye L. Hillman, *Public Finance and Public Policy—Responsibilities and Limitations of Government*, Cambridge U Press 2003, is the course text; it is genuinely recommended for purchase. Everything else on the reading list will be on reserve, books as print (*p*) at 1717, and single chapters and articles as electronic (*e*) at <http://reserves.library.jhu.edu/access/reserves/findit/articles/index.php> .

Students must read more than the text. Also, put yourself on the (e-)mailing list for *The Economists' Voice*, published by Berkeley Electronic Press. (Hopkins has a subscription.) Start at <http://www.bepress.com/ev> . These are opinion pieces, written by scholars. They almost invariably concern Public Economics, are far more analytical than your typical Op-Ed, and are short. Useful for class discussion, and as a lead for papers.

Weekly Topic Schedule

- 1a. Origins and Role of the State; Reasons for Collective Choice
Hillman, Chapter 1.
Russell Hardin, "Economic Theories of the State", in: Dennis Mueller (ed.), *Perspectives on Public Choice*, Cambridge U. Press 1997. *e*

- 1b. Allocation and Distribution in Well Behaved Markets
Hillman, Supplement 1B.
- 1c. Equity
Hillman, Chapter 5.1.1 – 5.4.1.
2. Public Goods and Club Goods
Hillman, Chapter 2.1, 2.2.1, 2.2.2, 2.2.4; Supplement 2A.
James Buchanan, "An Economic Theory of Clubs", *Economica* 32/125 (1965). *e*
- 3a. Externalities
Hillman, Chapter 4.
James E. Enstrom, Geoffrey C. Kabat, "Environmental Tobacco Smoke and Tobacco Related Mortality in a Prospective Study of Californians, 1960-98", *British Medical Journal*, No. 7398, 17 May 2003, pp. 1057-1060. Second hand smoke.
T.D. Stanley, "Wheat from Chaff: Meta-Analysis As Quantitative Literature Review", *Journal of Economic Perspectives*, 15/3 (Summer 2001). *e* Second hand results.
Jonathan Leape, "The London Congestion Charge", *Journal of Economic Perspectives*, 20/4 (Fall, 2006).
- 3b. "Internalities"? ["I can resist anything except temptation."—Zsa Zsa Gabor]
David Cutler, Edward L. Glaeser, Jesse Schapiro, "Why Have Americans Become More Obese?", *Journal of Economic Perspectives*, 17/3 (Summer 2003). *e*
Gary S. Becker, Michael Grossman, Kevin M. Murphy, "Economics of Drugs: Rational Addiction and the Effect of Price on Consumption", *American Economic Review*, 81/2 (May, 1991), Papers and Proceedings, pp. 237-241.
Jonathan Gruber, Botond Koszegi, "Is Addiction 'Rational'? Theory and Evidence", *Quarterly Journal of Economics* 116 (November 2001). *e*
Jeffrey A. Miron, Jeffrey Zwiebel "The Economic Case Against Drug Prohibition" *Journal of Economic Perspectives*, 9/4 (Fall 1995). *e*
Gary S. Becker, Kevin M. Murphy, and Michael Grossman, "The Economic Theory of Illegal Goods: The Case of Drugs", *NBER Working Paper No. 10976*, December 2004.
Glen Whitman, "Against the New Paternalism—Internalities and the Economics of Self-Control", *Policy Analysis*, No. 573 (February 22, 2006), CATO Institute. *e*
- 4a. Risk and Information
Hindricks & Myles, Chapter 9.
W. Kip Viscusi, *Rational Risk Policy: The 1996 Arne Ryde Memorial Lectures*, Clarendon Press, 1998. Chapters 1 - 4. *e*
Viscusi, W. K. and Aldy, J.E. "The Value of a Statistical Life: A Critical Review of Market Estimates throughout the World", *Journal of Risk and Uncertainty*, Vol. 27, No.1 (2003), pp. 5-76.
W. Kip Viscusi, "The Governmental Composition of the Insurance Costs of Smoking", *Journal of Law and Economics*, 42/2 (October, 1999). Smoking pays.

- 4b. Regulation and Litigation
W. Kip Viscusi, ed., *Regulation through Litigation*, AEI-Brookings 2002. *e, p*
- Chapter 1, Overview (Viscusi);
 - Chapter 2, Tobacco (Viscusi);
 - Chapter 9, Implications (Richard A. Epstein).
- 5a. Voting
Hillman, Chapter 3.1, 3.2.
- 5b. Bureaucracy and the Scope of Government
Hillman, Chapter 3.3
Canice Prendergast, “The Limits of Bureaucratic Efficiency”, *Journal of Political Economy*, 111/5 (October, 2003), pp. 929-958. *e*
Oliver Hart, Andrei Schleifer, Robert W. Vishny, “The Proper Scope of Government: Theory and an Application to Prisons”, *Quarterly Journal of Economics*, 112/4 (November, 1997). *e*
Ronald Wintrobe, “Modern Bureaucratic Theory”, in: Dennis Mueller (ed.), *Perspectives on Public Choice*, Cambridge U. Press 1997. *e*
Albert Breton, Robert Wintrobe, “The Bureaucracy of Murder Revisited”, *Journal of Political Economy*, 94/5 (1986). *e*
James Q. Wilson, *What Government Agencies Do and Why They Do It*, Basic Books, 1989. *p* Read the first chapter, *e*, and one other.
6. Tax Incidence
Hillman, Chapter 7; Supplement 2E.
Slemrod, J. "Optimal Taxation and Optimal Tax Systems", *Journal of Economic Perspectives* 4 (Winter, 1990), pp. 157-178. *e*
7. Some Taxes in Some Places
Joel Slemrod, Jon Bakija, *Taxing Ourselves—A Citizen’s Guide to the Great Debate Over Tax Reform*, 3rd ed., MIT Press 2004. Chapters 2, 6 and 7. Rest *passim*. *e, p*
Liam Ebrill, et.al.(ed’s.), *The Modern VAT*, IMF, 2001, Chapters 1-3; skim 17. *e*
Martin Feldstein, “The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act”, *Journal of Political Economy* 103/3 (June 1995). *e*
8. **1 ½ Hour Midterm-Exam Today on Sessions 1-6.** Remaining time is buffer.
9. Health Care
Hillman, Chapter 10.1.
Sherry A. Glied, Dhalia K. Remier, “What Every Public Finance Economist Needs to Know About Health Economics: Recent Advances and Unresolved Questions”, *National Tax Journal*, 55/4 (December 2002). *e*

- Uwe E. Reinhardt, Peter S. Hussey and Gerard F. Anderson, "U.S. Health Care Spending In An International Context", *Health Affairs*, Vol 23, Issue 3 (2004), pp.10-25. *e*
10. Statutory Pensions (Social Security)
Hillman, Chapter 10.3.
Geanakoplos, O. Mitchell and S. Zeldes "Private Accounts, Prefunding, and Equity Investment Under Social Security", in: S.H. Altman and D.I. Shactman (eds.), *Policies For An Aging Society*, Johns Hopkins U Press, 2002, pp. 266–292. *e*
11. Income Distribution and Redistribution
Hillman, Chapter 6; Supplement 5B.
Ron Haskins, "Effects of Welfare Reform on Family Income and Poverty", in Rebecca Blank, Ron Haskins (ed's): *The New World of Welfare*, Brookings, 2001, Chapter 4. *e*
Hilary W. Hoynes, Marianne E. Page, Ann Huff, "Poverty in America: Trends and Explanations", *Journal of Economic Perspectives* 20/1 (Winter, 2006). *e*
Nada Eissa, Jeffrey B. Liebman, "Labor Supply Response to the Earned Income Tax Credit", *Quarterly Journal of Economics* 111/2 (May 1996). *e*
Andreas Bergh, "Is the Swedish Welfare State A Free Lunch?", *Econ Journal Watch*, 3/2 (May 2006), pp. 210-235.
Peter H. Lindert, "The Welfare State Is the Wrong Target: A Reply to Bergh", *Ibid.*, pp. 236-250.
12. Education
Hillman, Chapter 10.2.
Symposium on School Vouchers, *Journal of Economic Perspectives*, Vol. 16, No. 4 (Fall 2002): *e*
- Helen Ladd, "School Vouchers: A Critical View", pp. 3-24; and
 - Derek Neal, "How Vouchers Could Change the Market for Education", pp. 25-44
- Ludger Woessmann, "Schooling Resources, Educational Institutions and Student Performance: The International Evidence", *Oxford Bulletin of Economics & Statistics*, Vol. 66 (2004). *e*
- Paul E. Peterson, William G. Howell, Patrick J. Wolf and David E. Campbell, "School Vouchers: Results from Randomized Experiments", in: Caroline M. Hoxby, ed., *The Economics of School Choice*, U Chicago Press for NBER, 2003. *e*
13. Fiscal Federalism
Hillman, Chapter 9.1.
George R. Zodrow, "The Property Tax as a Capital Tax: A Room with Three Views", *National Tax Journal*, 54/1, (March 2001). *e*