

ECONOMICS 736: PUBLIC ECONOMICS

Spring 2011
TTh 12:30pm – 1:45pm
Bryan 456

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Office Hours: TTh 11:30am-12:30pm

This is a graduate-level (Masters and PhD) course in public economics. We begin with a basic theoretical foundation for public economics, and spend the bulk of the course studying examples, primarily empirical. We will focus on environmental policy as a motivating example.

Course Materials

No textbook is required. However, lectures in the first few weeks of the course are based on chapters in *Microeconomic Theory* by Mas-Colell, Whinston, and Green (MWG). That book is strongly recommended. The same material is presented in a different manner in chapters of *Microeconomic Theory: Basic Principles and Extensions* by Nicholson and Snyder (NS), 10th edition. That book is also recommended. Much of the reading will be journal articles that are available via the university library. If anything is unavailable via the library, I will make it available on Blackboard (please let me know if there is something that you cannot find).

Assignments and Grades

Grades will be determined according to the following allocation of points:

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|--------------------------------|---------------------|
| • Midterm | 25% of course grade |
| • Research Paper | 35% of course grade |
| • In-class presentation | 35% of course grade |
| • Attendance and Participation | 5% of course grade |

Midterm

There will be one in-class midterm examination on **Thursday, February 10th**. It will cover the material from the theoretical section of the course. There is no final exam. The midterm is to be done independently, in class, without use of notes or textbooks.

Research Paper

A paper on the topic of your choosing is due on the final day of class (**April 21**). This paper should include a review of the literature relevant to your chosen topic and the groundwork for an original research idea. The topic should come from public economics, but that is broad. It could include health, environmental, and labor. For the literature review, define the problem or question, summarize how other papers have addressed the question and how they have answered the question, identify any weaknesses in the literature, and identify gaps or areas of further study. Then, propose a research plan

for an original project related to the literature. I will expect a more thorough plan from PhD students than from Masters students. There is no page length requirement, but between 20-30 pages (12 point font, double spaced, 1-inch margins) is appropriate. Your topic must be approved by me no later than **February 15th**. Turn in a rough draft, which should contain most of the literature review, no later than **April 5th**.

In-class Presentation

Each student will be assigned to lead the discussion for one class. This amounts to reading the paper assigned for that day, preparing a presentation of the paper, and leading a class discussion. Powerpoint slides or handouts are optional. Each student will choose a paper from the list of readings or of his or her own choosing, subject to the instructor's approval. Choose a presentation paper and have it approved by me no later than **January 25th**. The schedule of presentation will depend on which papers are chosen to present (i.e. where it fits in the schedule of lectures).

Attendance and Participation

This grade will be based on being present and punctual for each class meeting and participating in class discussions.

Course Outline/Readings

Not all are required. Required readings for each class will be announced in advance. All of the readings from Section 1 (Theoretical Foundation) are required and are listed on the course schedule.

I. Theoretical Foundation

- Externalities, MWG Chapter 11, NS Chapter 19
- Public Goods, MWG Chapter 11, NS Chapter 19
- General Equilibrium, MWG Chapter 15, NS Chapter 13 p. 441-466
- Welfare Analysis, MWG Chapter 16, MWG Chapter 22, NS Chapter 13 p. 466-481

II. The Distribution of Costs of Environmental Policy

- Fullerton, Don, "Six Distributional Effects of Environmental Policy," NBER Working Paper #16703, January 2011.
- Harberger, Arnold, "The Incidence of the Corporation Income Tax," *Journal of Political Economy*, 70, 1962. 215-240.
- Fullerton, Don, Gilbert Metcalf, "Tax Incidence," Handbook of Public Economics, Vol. 4, A. Auerbach and M. Feldstein, eds., Amsterdam: Elsevier, 2002, 1787-872 (first 12 pages only)
- West, Sarah, and Robertson Williams, "Estimates from a Consumer Demand System: Implications for the Incidence of Environmental Taxes," *Journal of Environmental Econ and Management* 47(3), 2004, 535-58
- Fullerton, Don, and Garth Heutel, "The General Equilibrium Incidence of Environmental Taxes," *Journal of Public Economics* 91(3-4), April 2007, 571-591.

- Fullerton, Don, and Garth Heutel, "The General Equilibrium Incidence of Environmental Mandates," *American Economic Journal: Economic Policy*, 2(3), August 2010, 64-89.
 - Parry, Ian and Robertons Williams, "What are the Costs of Meeting Distributional Objectives for Climate Policy?" NBER Working Paper #16486, October 2010.
 - Metcalf, Gilbert, Aparna Mathur and Kevin Hassett, "Distributional Impacts in a Comprehensive Climate Policy Package," NBER Working Paper #16101, June 2010.
- III. The Distribution of Benefits of Environmental Policy
- Brooks, N., Sethi, R., "The Distribution of Pollution: Community Characteristics and Exposure to Air Toxics," *Journal of Environmental Economics and Management* 32 (2), February 1997, 233-50
 - Chay, Kenneth and Michael Greenstone, "Does Air Quality Matter? Evidence from the Housing Market," *Journal of Political Economy*, 103(1), April 2005, 376-424.
 - Smith, V. Kerry, Holger Sieg, Spencer Banzhaf, and Randall Walsh, "General Equilibrium Benefits for Environmental Improvements: Projected Ozone Reductions under EPA's Prospective Analysis for the Los Angeles Air Basin," *Journal of Environmental Economics and Management* 47(3), May 2004, 559-84
 - Banzhaf, Spencer and Randall Walsh, "Do People Vote with their Feet? An Empirical Test of Tiebout's Mechanism," *American Economic Review*, 98(3), June 2008, 843-863.
 - Evans, Mary, Christine Poulos and Kerry Smith, "Who Counts in Evaluating the Effects of Air Pollution Policies on Households? Non-Market Valuation in the Presence of Dependencies." NBER Working Paper #15366, September 2009.
- IV. Environmental Policy Design
- Weitzman, Martin, "Prices vs. Quantities," *Review of Economic Studies*, 41(4), October 1974, 477-491.
 - Fell, Harrison, Ian MacKenzie and William Pizer, "Prices versus Quantities versus Bankable Quantities," RFF Discussion Paper 08-32, July 2008.
 - Pizer, William, "Combining Price and Quantity Controls to Mitigate Global Climate Change," *Journal of Public Economics*, 85(3), September 2003, 409-434.
 - Carlson, Curtis, Dallas Burtraw, Maureen Cropper and Karen Palmer, "Sulfur Dioxide Control by Electric Utilities: What are the Gains from Trade?" *Journal of Political Economy*, 108(6), December 2000, 1292-1326.
 - Aldy, Joseph, Alan Krupnick, Richard Newell, Ian Parry, and William Pizer, "Designing Climate Mitigation Policy," *Journal of Economic Literature*, 48(4), December 2010, 903-934.
- V. Private Provision of Public Goods
- J. Andreoni, "Charitable Giving" *New Palgrave Dictionary of Economics, 2nd Edition*, 2007.
 - J. Andreoni, 1990. "Impure Altruism and Donations to Public Goods: A Theory of Warm Glow Giving," *Economic Journal* 100, 464-477.
 - B. Kingma, "An Accurate Measurement of the Crowd-Out Effect, Income Effect, and Price Effect for Charitable Contributions," *Journal of Political Economy*, 97(5), October 1989, 1197-1207.

- T. Gaube, "When do Distortionary Taxes Reduce the Optimal Supply of Public Goods?" *Journal of Public Economics* 76, 2000, 151-180.
- T. Bergstrom, L. Blume and H. Varian, "On the Private Provision of Public Goods," *Journal of Public Economics* 29, 1986, 25-49.
- J. Andreoni, "An Experimental Test of the Public Goods Crowding-Out Hypothesis," *American Economic Review* 83 (5), 1317-27, 1993.
- J. Andreoni and A. Payne, "Do Government Grants to Private Charities Crowd Out Giving or Fundraising?" *American Economic Review*, 93(3), June 2003, 792-812.
- D. Hungerman "Are Church and State Substitutes? Evidence from the 1996 Welfare Reform," *Journal of Public Economics* 89 (2005), 2245-2267.
- Craig Landry, Andreas Lange, John List, Michael Price and Nicholas Rupp, "Is a Donor in Hand Better than Two in the Bush? Evidence from a Natural Field Experiment," *American Economic Review*, 100(3), June 2010, 958-983.
- Ribar, David and Mark Wilhelm, "Altruistic and Joy-of-Giving Motivations in Charitable Behavior," *Journal of Political Economy*, 110(2), April 2002, 425-457.

VI. Dynamics

- Golosov, Mikhail, Aleh Tsyvinski and Ivan Werning, "New Dynamic Public Finance: A User's Guide," NBER Macroeconomics Annual 2006, Vol 21, 317-363.
- E. Farhi and I. Werning, "Inequality, Social Discounting and Estate Taxation" *Journal of Political Economy* 115: 365-402, 2007.
- Jerome Adda and Russell Cooper, *Dynamic Economics*, The MIT Press: Cambridge MA. Chapters 2 and 3.
- Ellen McGrattan, "The Macroeconomic Effects of Distortionary Taxation," *Journal of Monetary Economics*, 33(3), June 1994, 573-601.
- Anton Braun, "Tax Disturbances and Real Economic Activity in the Postwar United States," *Journal of Monetary Economics*, 33(3), June 1994, 441-462.
- Heutel, Garth, "Plant Vintages, Grandfathering, and Environmental Policy," *Journal of Environmental Economics and Management*, 61(1), January 2011, 36-51.

VII. Assorted Externalities

- Escarce, Jose, "Externalities in Hospitals and Physician Adoption of a New Surgical Technology: An Exploratory Analysis," *Journal of Health Economics*, 15(6), December 1996, 715-734.
- Edlin and P. Karaca-Mandic, "The Accident Externality from Driving," *Journal of Political Economy* 114(5), 2006.
- E. Glaeser and E. Luttmer, "The Misallocation of Housing Under Rent Control," *American Economic Review*, 93(4), 1027-1046, September 2003.
- J. Gruber and B. Koszegi, 2001. "Is Addiction Rational? Theory and Evidence," *Quarterly Journal of Economics*, 116(4), 1261-1305.
- M. Kremer and E. Miguel "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities," *Econometrica* 72(1): 159-217.
- E. Rossi-Hansberg, P. Sarte, R. Owens, "Housing Externalities," *Journal of Political Economy*, 118(3), June 2010, 485-535.
- O'Donoghue, Ted and Matthew Rabin, "Optimal Sin Taxes," *Journal of Public Economics*, 90(10-11), November 2006, 1825-49.
- Coulson, Edward and Herman Li, "Measuring the External Benefits of Homeownership," Penn State University Working Paper, March 2010.

- Rosen, Harvey, "Housing Subsidies: Effects on Housing Decisions, Efficiency, and Equity," Handbook of Public Economics, Vol. 1 (1985), 375-420.

Course Schedule

The readings for each class will be announced a few days ahead of time. It will depend on the scheduling of the student presentations.

Tuesday	Thursday
1/11 Lecture 1 Class canceled - weather	1/13 Lecture 2 Externalities, MWG 11.B
1/18 Lecture 3 Externalities, MWG 11.B	1/20 Lecture 4 Public Goods, MWG 11.C
1/25 Lecture 5 Externalities and Public Goods, MWG 11.D and 11.E Presentation Paper Choice Due	1/27 Lecture 6 Edgeworth Exchange Economies, MWG 15.B
2/1 Lecture 7 Production in GE models, MWG 15.C and 15.D	2/3 Lecture 8 Fundamental Theorems, MWG 16.B-16.D
2/8 Lecture 9 Ramsey taxation, MWG 22.B	2/10 Lecture 10 Midterm
2/15 Lecture 11 The Distribution of Costs of Environmental Policy Paper Topic Choice Due	2/17 Lecture 12 The Distribution of Costs of Environmental Policy
2/22 Lecture 13 The Distribution of Costs of Environmental Policy	2/24 Lecture 14 The Distribution of Benefits of Environmental Policy
3/1 Lecture 15 The Distribution of Benefits of Environmental Policy	3/3 Lecture 16 The Distribution of Benefits of Environmental Policy
3/8 Spring Break, no class	3/10 Spring Break, no class
3/15 Lecture 17 Environmental Policy Design	3/17 Lecture 18 Environmental Policy Design
3/22 Lecture 19	3/24 Lecture 20

Environmental Policy Design	Private Provision of Public Goods
3/29 Lecture 21 Private Provision of Public Goods	3/31 Lecture 22 Private Provision of Public Goods
4/5 Lecture 23 Dynamics Paper Rough Draft Due	4/7 Lecture 24 Dynamics
4/12 Lecture 25 Dynamics	4/14 Lecture 26 Assorted Externalities
4/19 Lecture 27 Assorted Externalities	4/21 Lecture 28 Assorted Externalities Paper Due
4/26 No class	4/28 No class