

ECON 309: PUBLIC FINANCE

Spring 2021

MW 11:00 AM – 12:20 PM, Online Class

Dr. Jeffrey T. Lewis (ECON)

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Office Hours: to be determined

TEACHING ASSISTANT

TA Joe Long (joelong2020@u.northwestern.edu)

TA office hours and locations will be posted on Canvas.

COURSE OBJECTIVES

In this class, students will increase their knowledge of public finance (the study of the role of the government in the economy). Public finance addresses four main questions. When should the government intervene in the economy? How might the government intervene? What is the effect of those interventions on economic outcomes? Why do governments choose to intervene in the way that they do?

COURSE WEBSITE

This course has a website on Canvas. Everyone should automatically be enrolled in the Canvas website upon official enrollment in the class. I will post my lecture notes on the website. Print out the lecture notes. On Canvas, I'll also post an announcement with the link to my recorded lecture (recorded through Zoom). Finish filling out the lecture notes as you watch the recording of the Zoom lecture. The lectures are pre-recorded. We are not having live lectures on Zoom during our regularly scheduled class time.

COURSE MATERIALS

The textbook for the course is *Public Finance and Public Policy* (Sixth Edition) by Jonathan Gruber. The textbook is optional. Most of my lecture notes are based on Gruber's text. You will need a calculator for the problem sets and exams.

PROBLEM SETS

Most weeks, I will post a problem set on Canvas. You will need to submit numerical answers or answer multiple choice questions on Canvas. Canvas will automatically grade your submissions. If you miss the deadline for submitting your answers, you will not receive credit for that problem set. For questions about how to complete the Canvas problem sets, read the policy_canvas_psets handout on Canvas (under Policies folder).

OFFICE HOURS

We will hold Zoom office hours. You can't check over your problem set answers during office hours. You need to complete the problem sets on your own. You can ask us questions about the course material or sample problems that we post on Canvas during office hours.

QUIZZES

We will give four quizzes this term (through Quizzes link on Canvas). The quizzes are open-note. Here are the quiz dates:

Wednesday, April 14 starting at 11:00 AM central time

Wednesday, April 21 starting at 11:00 AM central time

Wednesday, May 12 starting at 11:00 AM central time

Wednesday, May 19 starting at 11:00 AM central time

EVALUATION

Here are the assessments that will be used to determine your final grade:

Problem Sets/ Quizzes
Exam #1
Exam #2
Final Exam

We will drop your lowest problem set score. We will drop your lowest quiz score. At the end of the term, we will do this calculation:

$$[(\text{your PS points} + \text{your quiz points}) / (\text{total PS points} + \text{total quiz points})] \times 100\%$$

This percentage score will constitute 16% of your final grade.

Your final grade will be determined by whichever calculation is highest (method *a*, *b*, or *c*):

- a) $16\% \times (\text{Problem Sets/Quizzes}) + 28\% \times (\text{Exam \#1}) + 28\% \times (\text{Exam \#2}) + 28\% \times (\text{Final Exam})$
- b) $16\% \times (\text{Problem Sets/Quizzes}) + 0\% \times (\text{Exam \#1}) + 28\% \times (\text{Exam \#2}) + 56\% \times (\text{Final Exam})$
- c) $16\% \times (\text{Problem Sets/Quizzes}) + 28\% \times (\text{Exam \#1}) + 0\% \times (\text{Exam \#2}) + 56\% \times (\text{Final Exam})$

EXAM DATES

Exam #1 will be given online on Wednesday, April 28 from 11:00 AM – 12:20 PM central time.

Exam #2 will be given online on Wednesday, May 26 from 11:00 AM – 12:20 PM central time.

The Final Exam will be given online on Wednesday, June 9 from 7:00 PM – 9:00 PM central time.

The exams are online (through Quizzes link on Canvas) and open-note. You must take the exams on the dates/times specified above.

Here is Northwestern's best practices recommendation for taking online exams and quizzes:

While students can connect via Wi-Fi, we highly recommend using a wired internet connection, as faster internet connections improve the online experience.

EXCUSED ABSENCES/ MAKEUP POLICIES/ INCOMPLETES

Problem Sets/Quizzes

There are no makeup Canvas problem sets. If you miss the deadline for submitting your answers (for any reason), you will not receive credit for that problem set. We will drop your lowest problem set score. There are no makeup quizzes. If you miss a quiz (for any reason), you will not receive credit for that quiz. We will drop your lowest quiz.

Exams

There are no makeup exams for Exam #1 or Exam #2.

If you miss Exam #1 (for any reason), but do take Exam #2 and the Final Exam, then your final grade will be determined by whichever calculation is highest: method *a*, *b*, or *c*.

If you miss Exam #2 (for any reason), but do take Exam #1 and the Final Exam, then your final grade will be determined by whichever calculation is highest: method *a*, *b*, or *c*.

If you miss both Exam #1 (for any reason) and Exam #2 (for any reason), but do take the Final Exam, then your final grade will be determined by whichever calculation is highest: method *a*, *b*, or *c*. (Please note that the withdrawal deadline is after the Exam #2 date.)

Incompletes

If you take the Final Exam, or start to take the Final Exam, then you cannot receive an excused absence for that assessment. Your exam score will be recorded. You wouldn't qualify for an Incomplete.

If you miss the Final Exam for an excused reason (such as an illness or family emergency), then you would need to email me and then petition for an Incomplete through the Dean's Office.

To qualify for an Incomplete if you do not take the Final Exam:

- 1) The Dean's Office would have to approve your Incomplete petition.
- 2) You would have to have taken either Exam #1 or Exam #2. (If you miss both Exam #1 (for any reason) and Exam #2 (for any reason), then you would not qualify for an Incomplete.)
- 3) It has to be possible for you to receive a final course grade of at least 63% if you take the makeup Final Exam.

If you receive an Incomplete, then you would take the makeup Final Exam during finals week of the next term.

GRADING POLICIES

For questions on how to deal with rounding on problem sets and exams, read the policy_rounding handout on Canvas (under Policies folder). Final grades will be decided on the following scale:

A	93.0-100		C+	77.0-79.99
A-	90.0-92.99		C	73.0-76.99
B+	87.0-89.99		C-	70.0-72.99
B	83.0-86.99		D	63-69.99
B-	80.0-82.99		F	Below 63

NORTHWESTERN POLICIES

Academic Integrity

The Provost's Office maintains information on resources and university principles related to academic integrity; see <http://www.northwestern.edu/provost/policies/academic-integrity/>.

Disability Accommodations

Any student requesting accommodations related to a disability or other condition is required to register with AccessibleNU (accessiblenu@northwestern.edu; 847-467-5530) and provide professors with an accommodation notification from AccessibleNU, preferably within the first two weeks of class. All information will remain confidential.

Policies Regarding Recordings

Recording by the Instructor: This class or portions of this class will be recorded by the instructor for educational purposes. These recordings will be shared only with students enrolled in the course in Canvas.

Recording by Students: Unauthorized student recording of classroom or other academic activities (including advising sessions or office hours) is prohibited. Unauthorized recording is unethical and may also be a violation of University policy and state law. Students requesting the use of assistive technology as an accommodation should contact ANU. Unauthorized use of classroom recordings – including distributing or posting them – is also prohibited. Under the University’s Copyright Policy, faculty own the copyright to instructional materials – including those resources created specifically for the purposes of instruction, such as syllabi, lectures and lecture notes, and presentations. Students cannot copy, reproduce, display or distribute these materials. Students who engage in unauthorized recording, unauthorized use of a recording or unauthorized distribution of instructional materials will be referred to the appropriate University office for follow-up.

TENTATIVE TOPICS COVERED

- Income and Substitution Effects

- Budget Constraints and Indifference Curves

- Log Models

- Omitted Variable Bias

- Labor Supply

empirical evidence for primary earners and secondary earners, labor force participation decision versus hours-of-work decision

- Welfare- AFDC (pre-1996) and Welfare Reform- TANF (post-1996)

negative work incentives of AFDC, work requirement, earnings disregard program, effects of reform

- Earned Income Tax Credit (EITC)

expected effects on labor supply in regions I, II, and III, political popularity of EITC

- Food Stamps/ Housing

- Welfare- Moral Hazard

ordeal mechanisms, unlinking cash welfare and government health insurance

- Child Care

budget constraints when costs are purely hourly or purely fixed, tax treatment of child care

- Income Inequality

trends in income inequality, different measurements of poverty rate

- US Tax System

calculating individual income taxes, political process of measuring tax fairness, tax subsidy to home ownership, tax credits versus tax deductions

- Marriage Tax

competing goals of progressivity, across-family horizontal equity, and across-marriage horizontal equity

- Tax Burden

tax on producers or consumers in product market, yacht tax

- Payroll Tax

tax on firms or workers in labor market, distribution of tax burden when there are impediments to wage adjustment

- Social Insurance

diminishing marginal utility from consumption, expected utility model, asymmetric information and adverse selection, addressing adverse selection with individual mandate

- US Health Care System

the uninsured population, prevalence of employer-provided health insurance

- RAND Health Insurance Experiment

elasticity of demand for medical care, effects of generosity of insurance on health outcomes

- How Generous Should Insurance Be?

catastrophic insurance, coinsurance rate in supply and demand diagram

- Mandated Benefits

cost to firm $>$ benefit to worker, benefit to worker $>$ cost to firm, mandated benefit versus public provision, mandates in ACA

- Oregon Health Insurance Experiment

effects of insurance on health outcomes

- Unemployment Insurance

- Deadweight Loss of Taxation

tax on sellers, tax on consumers, DWL and elasticities, DWL and size of tax, Laffer curve

- Taxes on Savings

intertemporal budget constraint, budget constraint with general subsidy to retirement savings, IRA budget constraint

- Capital Gains Taxation

- Fundamental Tax Reform

channels by which tax rate changes affect tax revenues, flat tax

- The Federal Budget Deficit

loanable funds market, deficit to finance investment versus deficit to finance transfers

- Externalities

positive or negative externality in production or consumption, gas tax

- Economics of Smoking

- Social Security

- Political Economy