1. Course Overview

Public finance (also known as public economics) studies the economics of government taxation and redistribution in market economies, in theory and practice. We will analyze the reason for government interventions in a market economy, as well as the impact of alternative government interventions on economic outcomes. Public economics include two primary topics of analysis: government expenditures and taxation. This course covers both topics, with a focus on the impact of government intervention on the relevant agents: households (consumers, workers) and firms. The class will also briefly present different tax systems in different parts of the world, especially focusing on the U.S. tax system. In this course, you will learn how to interpret economic analyses and how to use the tools of microeconomics and empirical analyses to investigate and predict the effects of public expenditures, regulations and government revenue-raising activities. Although not mandatory, this class will provide you with the necessary background for its companion class taught in the second semester: “Economics for Public Issues,” (Spring 2015). This course will more focus on U.S. government expenditure policy, and its companion course, “Economics for Public Issues”, will focus on U.S. government tax policy.

- Prerequisites:

To follow up the class well, you are required to have passed “microeconomics” with at least a “B+”, and “mathematics for economists” with at least a “A” (or, pass the math exam). Students with background in statistics and/or econometrics will find this class more accessible. Basic knowledge of econometric software such as STATA and SAS is strongly recommended.
2. **Coursework and Grading**
   - Homework: 30%
   - Midterm: 25%
   - Final exam: 30%
   - Final team project: 15%
   - Class attendance: weight (no absence: 1.0, one absence: 0.99, two absences: 0.98, more than two absences: 0.7) used for the final GPA adjustment.
   - FYI, GPAs below 70 are considered as failure of the course by the PKU academic rule.

**Homework:**

Students are required to submit 4 reports (hardcopy version) to a TA. Students can write either a summary of published papers or a referee report of working papers. This is an individual task, not a group work. These homeworks will help students keep track of key and recent public economics papers and find their dissertation topics. Published and working papers on the lists are below with due dates and marked with (S) representing the summary and (R) representing the referee report.

► **Format guideline:**

All text should be double-spaced with Times New Roman 12 point font, one inch margins. Footnotes should be single-spaced. Indent the first word of a new paragraph by one-half inch. Use only one space after the period at the end of a sentence, do not right-adjust the text, and do not add a line of space between paragraphs. Do not cut sentences or paragraphs from original papers and paste them into your summary/referee reports. DO summarize / referee papers in your own word. Do not copy the contents from other students.

1) **Summary:**
   - Summary papers should include a technical and non-technical summary of 1000–1500 words. No more than 5 pages in MS word.
   - The summary should identify the main results of the paper, explain their importance, and relate the work to the previous literature.

2) **Referee:**
   - Referee reports should include a technical and non-technical review of 500–1000 words. No more than 3 pages in MS word.
   - The referee reports should explain limitation or problems of the papers and suggest how to improve it.
Homework Lists

HW 1: Due Thursday, September 4

HW 2: Due Thursday, September 25

HW 3: Due Monday, October 13

HW 4: Due Monday, November 3


<table>
<thead>
<tr>
<th></th>
<th>Authors</th>
<th>Year</th>
<th>Title</th>
<th>Journal/Series</th>
</tr>
</thead>
</table>

**Exams:**

There will be a midterm (25%) and a final exam (30%). Both exams will include problem solving type questions and short essays. The midterm will be on **Monday, September 29.** The Final will be held on **Monday, November 10 from 3:30 to 5:30pm.** Since there will be no make-up exam, please carefully plan your 2014 Fall schedule ahead.

**Team Project:**

Students need to make a presentation of their projects at the end of the semester. Each group (max 3 students) chooses one of the topics covered in class and applies it to current Chinese systems, especially focusing on Shenzhen and the Guangdong province. Students should analyze one of the current Chinese government policies and empirically investigate its effect on the Chinese economy, and suggest a new policy to improve the current system. This final team project helps students deepen the understanding of Chinese government policies and economy.
The presentation will be evaluated based on the presentation skill, the level of understanding the topic, how to handle questions during the presentation, and the feasibility of the suggested policy under the current Chinese system. Each group will have 20 minutes for the presentation and 10 minute Q&A time. Each group must submit the final report, original dataset, and programming codes by **5:00pm, November 7 on SZT**.

- **Class Participation:**
  Students’ final GPAs will be adjusted by their “participation” weight in class, including presence and participation.

- **Rescheduling the Class:**
  September 8 (Mid-Autumn Festival holiday) → September 10, same venue and time.

- **Class Policy:**
  Students are not allowed to use their laptops or cellphones in the classroom.

### 3. Course Materials

- **Required Textbook:**
  2. Required (*) and optional readings: A list of journal articles is provided below.

- **Recommended References:**

### 4. Class Schedule (tentative)

**Part 1: Introduction to Public Finance** – JG Ch. 1&2; HR&TG Part I (Ch. 1-3)
- Presentation; Course Overview;
- Introduction to Public Finance and Background

**Parts 2: Externalities, Public Goods and Public Choice; Layers of Governments; Social Insurance**
- Welfare economics; Market failures: definition, formalization, government role; Externalities: Theory; Private and Public Solutions; Applications: Environmental Damages; – JG Ch. 5&6; HR&TG Ch. 5
• Market Failures: Public goods; Club Goods; Common Property – JG Ch. 7; HR&TG Ch. 4
• Cost Benefit Analysis – JG Ch. 8
• Optimal Fiscal Federalism: State and Local Governments; Decentralization – JG Ch. 10

References
James Adreoni and Theodore Bergstrom, “Do government subsidies increase the private supply of public goods?,” Public Choice, 1996, 295-308

Part 3: Social Insurance and Redistribution
• Social Insurance and Social Security – JG Ch. 12&13
• Health Insurance – JG Ch. 15&16
• Income Distribution and Welfare Programs – JG Ch. 17

References


**Part 4: Taxation in Theory and Practice**

- Introduction to Taxation: Taxation around the World (Types, Structure); Criteria for Evaluating Tax Systems: Fairness, Efficiency, Administrative Burden – JG Ch. 18
- Tax Incidence: Which side of the market bears the burden of taxes? – JG Ch. 19
- Optimal Taxation: Taxation and Efficiency; Taxation of Consumption and Income in Theory and Practice – JG Ch. 20
- Issues with income taxation: Taxing Labor; How Labor Reacts to Taxes in Theory; Empirical Evidence; Labor Incentive Mechanisms – JG Ch. 21
- Issue with Income Taxation: Taxing Savings; Theory, Evidence; Incentive mechanisms; Application to retirement savings, entrepreneurial activities, innovation – JG Ch. 22
- Impact of Wealth Taxes on Risk-Taking Behavior – JG Ch. 23
- Corporate Taxation – JG Ch. 24. This course or “Economics of Public Issues” course will not cover this topic because “Taxation and Business Strategy” course will cover this in very detail.
- Fundamental Tax Reform – JG Ch. 25
- Final Project Presentation

**References**


