Department of Economics
Course Outline

Term:	Winter 2004

Course:	Economics 611.13 [Public Finance]	**Section:**	[91]
Time:	M 18:30 ? 21:20	**Place:**	SS 423 (subject to change)
Instructor:	Dr. Jean François Wen		
Office:	SS 416	**Telephone:**	220-2478
Office Hours:	TR 14:00 ? 16:00	**E-Mail:**	wen@ucalgary.ca

Textbook(s):

n/a

Book(s) on Reserve:

n/a

Course Outline:

This is a course on ?normative? aspects of the theory of Public Economics, with a particular focus on ideas and methods relevant for understanding the economics of ?welfare state? programs of the government in education, pensions, health care, housing, and income redistribution. Welfare state programs comprise a very substantial part of government activities. Understanding the efficiency and equity rationales for the welfare state is therefore fundamental to understanding the economic role of government in the modern economy.

The theoretical concepts to be covered include the conditions for Pareto optimality, externalities and public goods, ordinal and cardinal social welfare functions, interdependent utility functions, insurance market failures, optimal income taxation, negative income taxes, and unfunded public pensions. We will discuss how these topics relate to actual welfare states programs.

The following list articles will be covered; most are regarded as seminal contributions. (An asterisk means that reading the full paper is indispensable. Where there is no asterisk, the paper may contain considerably more material than will be discussed in class; in those cases, my lecture notes are sufficient and reading the paper, though recommended, is regarded as optional.)

Topics and Reading List

A. General Equilibrium and Social Welfare

1. Topic 1: General Equilibrium and Pareto Optimality (Lecture 1a)
   Reading:

   - Bator, F.M. (1957) The Simple Analytics of Welfare Maximization, American Economic Review 47: 22?59.

2. Topic 2: Ordinal Social Welfare Functions (Lecture 2a)
   Reading:

   - Samuelson, P. (1956) Reaffirming the Existence of Reasonable Bergson-Samuelson Social Welfare Functions, Economica 44: 81?8. (*)

3. Topic 3: Cardinal Social Welfare Functions (Lecture 2b)
   Reading:

   - Harsanyi, J. (1955) Cardinal Welfare, Individualistic Ethics, and Interpersonal Comparisons of Utility, Journal of Political Economy 63: 309?21. (*)

4. Topic 4: Inequality and Social Welfare Functions (Lecture 3a)
   Reading:

   - Atkinson, A. (1970) On the Measurement of Inequality, Journal of Economic Theory 55: 749?64. (*)

B. Applications of Pareto Optimality

5. Topic 5: Classic Market Failures (Lecture 3b)
   Readings:

   - Meade, J. (1952) External Economies and Diseconomies in a Competitive Situation, Economic Journal 62: 54?76.
   - Bowen, H.R. (1943) The Interpretation of Voting in the Allocation of Economic Resources, Quarterly Journal of Economics 58: 27?48.
   - Bator, F.M. (1958) The Anatomy of Market Failure, Quarterly Journal of Economics 72: 351?79.

6. Topic 6: Incentives and Excess Burden (Lectures 4a, 4b)
   Readings:

- Aaron, H. and G. von Furstenberg (1971) The Inefficiency of Transfers in Kind: The Case of Housing Assistance, Western Economic Journal 9, 184?191.
- Lindbeck, A. (1993) Tax Effects versus Budget Effects on Labor Supply, in The Welfare State: the Selected Papers of Asser Lindbeck, Volume II (Adelshot: Edward Elgar).
- Browning, M. and Johnson (1984) The Tradeoff Between Equality and Efficiency, Journal of Political Economy 92: 175?203. (*)

7. Topic 7: Pareto Optimal Transfers (Lectures 5a, 5b)
   Readings:

   - Olson, E.O. (1971) Subsidized Housing in a Competitive Market: Reply, American Economic Review 61: 220-224.
   - Hochman, H. and J. Rodgers (1969) Pareto Optimal Distribution, American Economic Review 59: 542?57. (*)
   - Warr (1983) The Private Provision of a Public Good is Independent of the Distribution of Income, Economic Journal 20: 680?84. (*)
   - Bruce, N. and M. Waldman (1991) Transfers in Kind: Why They Can Be Efficient and Nonpaternalistic, American Economic Review 81: 1345?51. (*)

C. Applications of Social Welfare (4 weeks)

8. Topic 8: Public Goods (Lecture 6a)
   Readings:

   - Samuelson, P. (1955) Diagrammatic Exposition of a Theory of Public Expenditures, Review of Economics and Statistics 37: 350?6. (*)
   - Samuelson, P. (1954) The Pure Theory of Public Expenditures, Review of Economics and Statistics 36: 387?9.
   - Thurow, L. (1971) Income Distribution as a Pure Public Good, Quarterly Journal of Economics 85: 327?36. (*)

9. Topic 9: Linear Progressive Income Taxation (Lectures 6b, 7a)
   Readings:

   - Stern, H.N. (1976) On the Specification of Models of Optimum Income Taxation, Journal of Public Economics 6: 123?62. (*)
   - Barr, N. (1975) Negative Income Taxation and the Redistribution of Income, Oxford Bulletin of Economics and Statistics 37: 29?48. (*)

10. Topic 10: Incentive Compatible Redistribution (Lectures 7b, 8a, 8b)
    Readings:

    - Atkinson, A. and J. Stiglitz (1980) The Structure of Income Taxation, chapter 13 in Lectures on Public Economics. (*)
    - Stiglitz, J. (1982) Self-Selection Pareto Efficient Taxation, Journal of Public Economics 17:

213?40.

- Akerlof, G. (1978) The Economics of "Tagging" As Applied to the Optimal Income Tax, Welfare Programs, and Manpower Planning, American Economic Review 68: 8?19. (*)
- Blackorby, C. and D. Donaldson (1988) Cash versus Kind, Self-Selection, and Efficient Transfers, American Economic Review 78: 691?700. (*)

D. Insurance Market Failures

11, Topic 11: Insurance Against Illness and Unemployment (Lectures 9a, 9b, 10a, 10b)
Readings:

- Rothschild, M. and J.E. Stiglitz (1976) Equilibrium in Competitive Insurance Markets, Quarterly Journal of Economics 90: 629?650. (*)
- Dahlby, B. (1981) Adverse Selection and Pareto Improvement through Compulsory Insurance, Public Choice 37: 547?58.
- Arrow, K. (1963) Uncertainty and the Welfare Economics of Medical Care, American Economic Review 53: 942?73. (*)
- Pauly, M.V. (1974) Overinsurance and Public Provision of Insurance: The Roles of Moral Hazard and Adverse Selection, Quarterly Journal of Economics 88: 44-62. (*)
- Green, D. and W.C. Riddell (1993) The Economic Effects of Unemployment Insurance in Canada: An Empirical Analysis of UI Disentitlement, Journal of Labor Economics 11: S96?S147.

12. Topic 12: Annuities and Public Pensions (Lectures 11a, 11b)
Readings:

- Samuelson, P. (1958) An Exact Consumption Loan Model of Interest With and Without the Contrivance of Money, Review of Economics and Statistics 66: (*)
- Feldstein, M. (1974) Social Security, Induced Retirement and Aggregate Capital Accumulation, Journal of Political Economy 82: 905?26. (*)

E. Public Debt

13. Topic 13: Debt and Capital Accumulation (If time permits)
Reading:

- Diamond, P. (1965) National Debt in a Neoclassical Growth Model (*)

Grades:

There will be four assignments, worth 10 percent each; a mid-term exam worth 20 percent; and a final exam worth 40 percent.

Grade Determination and Final Examination Details:

There will be four assignments, worth 10 percent each; a mid-term exam worth 20 percent; and a final exam worth 40 percent.

Tests and final exams are marked on a numerical (percentage) basis, then converted to letter grades. The course grade is then calculated using the weights indicated above. As a guide to determining standing, these letter grade equivalences will generally apply:

A+	90-100	B	70-74	C-	56-58
A	85-89	B-	65-69	D+	53-55
A-	80-84	C+	62-64	D	50-52
B+	75-79	C	59-61	F	0-49

If, for some reason, the distribution of grades determined using the aforementioned conversion chart appears to be abnormal the instructor reserves the right to change the grade conversion chart if the instructor, *at the instructor's discretion*, feels it is necessary to more fairly represent student achievement.

A passing grade on any particular component of the course is not required for a student to pass the course as a whole.

Non-programmable calculators will be allowed during the writing of tests or final examinations.

There will be a 3 hour final examination scheduled by the Department of Economics.

Tests and exams will not involve multiple choice questions.

Notes:

- Students seeking reappraisal of a piece of graded term work (term paper, essay, etc.) should discuss their work with the Instructor within two weeks of the work being returned to the class.

Safewalk / Campus Security: 220-5333

* * * * *

JFW:pst
2004-01-12