Economics 340: Issues in Public Economics
Syllabus: Winter 2013
Professor: Christopher Ellis

Description: This is an introductory course in Public Economics. We shall cover topics including using the concept of Pareto efficiency to evaluate economic outcomes, the efficiency of competitive markets, and the problems for efficiency caused by the existence of public goods and externalities.

Text: The recommended text is *Public Finance* by Harvey S. Rosen, it is not necessary to purchase the latest edition, and this text has **not** been ordered by the University bookstore. You may find cheep copies of Rosen here, or cut and paste http://www.amazon.com/Public-Finance-S-Rosen/dp/0072374055 into your browser. Smith family bookstore may also be a useful source for cheep copies of Rosen.

Logistics: The following will be useful to you
Class location: 125 McKenzie Hall
Class Times: Mondays and Wednesdays 10-11.20am
Office Location: 540 PLC
Office Hours: Mondays and Wednesdays 3.30-4.30pm
Email: cjellis@uoregon.edu
Phone: 6-4657

Evaluation: There will be two midterms and a final each of which will be comprehensive. The weighting on the exams will be as follows, 20% on midterm #1, 25% on midterm #2, and 40% on the final. The remaining 15% will be for three problem sets each of which will be worth 5%. The problem sets may be done collaboratively, indeed this is encouraged, but, please, this does not mean simply copying each other.

Final Exam: 10.15am Monday March 18th in 125 McKenzie.

Grading Policy: The Economic Department has a grading policy designed to prevent grade inflation. Except in very unusual circumstances there will be no fewer than 55% and no more than 75% A's and B's given.

I grade as follows.

Step #1 – Initial grade allocation

(1) The student in the class with the mean total score receives a B-
(2) Students with scores within one standard deviation below the mean receive C's.
(3) Students with scores between one and two standard deviation below the mean receive D's

(4) Students with scores more than two standard deviation below the mean receive F's
(5) Students with scores between the mean and one standard deviation above the mean will receive B's
(6) Students with scores more than one standard deviation above the mean receive A's

Step #2 – Adjustments

(1) Students that perform considerably better on the final exam relative to over the course of the term, and are on the borderline between two grades, will receive a half grade increased over the grade indicated by their overall score.
(2) If a small number of students receive very low or very high scores relative to the class as a whole, then I will adjust the grades of all students slightly so that these outliers do not move the curve significantly.

Note: My grading policy does ***not*** imply that 90% plus gets an A, 80% plus gets a B and so on.

Expectations: Please note the following

Attendance: While attendance is not compulsory, and does not earn class credit, it is highly recommended. I have found that there is a strong correlation between good grades and class attendance.

Honesty: It is completely unacceptable to cheat on an exam. During an exam communication with anyone other than the proctor will place you at risk of being considered to be cheating. I will pursue the maximum penalty for anyone caught cheating.

Office Hours: Office hours are not substitutes for class attendance. They are best used to help students understand material that they do not fully comprehend in class, and to help with preparation for tests.

Special Needs: If you have a learning disability or any kind of special need please contact me very early in the term. This will allow us to work out what best facilitates your success in the class.

Fragrances: I am allergic to fragrances please do not wear them to class or office hours.

Outline:

1/7 - Overview of class material and logistics

1/9 - Micro review

The consumer's utility maximization problem

- Indifference curves
- The diminishing marginal rate of substitution
- Budget constraints
- The consumers optimum
- Income and substitution effects

1/14 - Micro Review

The producer's optimum

- Isoquants
- The diminishing marginal rate of technical substitution
- Isocosts
- Profit maximization
- Cost minimization

1/16 – Pareto Efficiency

- The concept
- Efficiency in consumption
- Efficiency in production

1/21 No class – MLK Day.

1/23 – Pareto Efficiency and the Fundamental Theorem of Welfare Economics

- Efficiency in production and consumption
- The First Fundamental Theorem of Welfare Economics (FFTWE)

1/28 – Efficiency and Social Welfare

- Bergson-Samuelson social welfare functions
- Pareto efficiency and the social welfare optimum
- The Second Fundamental Theorem of Welfare Economics

1/30 – The FFTWE and Failures

- The FFTWE continued
- Failures due to
    - Imperfect competition
    - Public goods
    - Externalities
    - Information problems

2/4 – Failure of the FFTWE continued

- **Problem set #1 due at the end of class**

2/6 – Midterm 1

2/11 – Public Goods
- Pure public goods
- Efficiency and the Samuelson condition
- Demand curves for public goods
- The free rider problem

2/13 – Public Good Provision Mechanisms
- The Lindahl mechanism
    - Sincere voting
    - Strategic voting

2/18 – Majority Voting
- Condorcet winners
- Problems
- Single and multi peaked preferences

2/20 – Preference Revelation
- The Vickrey auction
- The Clarke-Groves mechanism
- Problems with Clarke-Groves

2/25 – Private Provision of Public Goods - Charities
- Warm glow
- Pivotal mechanisms
- Matching mechanisms
- **Problem set #2 due at the end of class**

2/27 – Midterm #2

3/4 – Externalities
- The nature of externalities
- The source of externalities
- Efficiency

3/6 – Pigouvian Solutions
- Pigouvian solutions - taxes and subsidies
- Problems with Pigouvian solutions
- Varian's solution

3/11 – Coasian Solutions
- Coasian Solutions
- Problems with Coasian solutions
- The Ellis – van den Nouweland Solution

3/13 – Review Session

- Problem set #3 due at the end of class

3/18 – Final Exam 10.15am