I. COURSE OBJECTIVES

1. To provide an understanding of basic economic concepts and tools used by economists and show how economists use these in thinking, talking, and writing about issues of government spending, taxing, and regulation.

2. To provide an understanding of the economist's view of how the world works and the contributions of this view to thinking about public policy, budgeting, and tax issues.

II. REQUIRED TEXTS

1. Texts


2. Reserve readings (CSU library website)

These readings may be accessed at http://researchguides.csuohio.edu/er.php (The course number is UST 603 and the password is 7949).


Steven Rhoads, "Do Economists Overemphasize Monetary Benefits." Public Administration Review, Volume 45, Number 2, 1985: 815-819


III. COURSE REQUIREMENTS

1. Three Midterms, February 14, March 21, April 18 (25% each for two highest scores, lowest score dropped provided all exams are taken)

2. Final Comprehensive Examination, May 9 (50%)

All of these examinations are designed to assess your knowledge of economic and public finance concepts and your ability to apply them to concrete real-world situations. The purpose of holding exams so frequently is to provide you with timely feedback on how well you are grasping the material so that you can improve your work on later exams. Exams will include questions on some arguments in the Hyman and Landsburg texts and also in articles on reserve, but not covered in class. All exams will be open-book, but please come as well prepared as you would be for a regular exam. Access to computers or phones during exams will not be permitted so please print out any materials you need and bring a calculator. Make-up exams will be granted only in cases of a documented emergency and, whenever possible, you should notify me prior to the scheduled exam. Any make-up exams must be taken by appointment during regular office hours (9am-5pm) and no later than 48 hours after the normally scheduled exam.

3. Class Participation
IV.  GRADING POLICY

Final grades will be assessed on an A-B-C-F scale. Pluses and minuses will be shown on graded assignments for advisory purposes only. The grading scale is as follows: A, 88-100; B, 70-87; C, 52-69; F, 0-51%.

V.  COURSE OUTLINE

Reading assignments should be completed prior to coming to class. PAGE NUMBERS FOR THE OLDER EDITIONS OF THE TEXTS ARE LISTED IN BRACKETS. PAGE NUMBERS FOR THE NEWER EDITIONS ARE LISTED IN PARENTHESES. Please read the Sharp assignments before the Hyman assignments where both are assigned. In the Sharp text, please try to understand the basic economic arguments advanced and don't dwell on the institutional or historical data.

Session 1: Introduction; Course Overview; Working with Graphs.

Session 2: Scarcity and the Need to Choose; Opportunity Cost; the Nature of Economic Theory; Economic Efficiency.

Assignments: Sharp et al., Chapter 1, 11, [322-327] (302-306); Hyman, Chapter 1, 2 [55-62] (53-59)

Session 3: Supply and Demand.

Assignments: Sharp et al., Chapter 2

Session 4: Supply and Demand (cont'd); Markets, Efficiency, and The Role of Government; The Effects of Subsidies on Efficiency; Efficiency versus equity.

Assignments: Sharp et al., Chapter 14 [421-425] (397-401]. Hyman, Chapters 1 [44, 54] (42, 51-52), 2 [62-79] (60-74); Landsburg, Chapters 1, 4, 5, 6, 7, 8.

Session 5: Midterm I


Assignments: Sharp et al., Chapters 4, 6; Hyman, Chapter 3, Landsburg, Chapters 9, 17, 24.


John Mikesell. “Cost Estimation” in Fiscal Administration” (Reserve Reading).

Session 8: Methods of Expenditure Analysis. Revenue Forecasting.
Assignments: Hyman, Chapter 6; Landsburg, Chapter 10

Anthony and Young. "Program Analysis" (Reserve Reading).
Xiaohu Wang. “Revenue Forecasting” (Reserve Reading)

Session 9: Midterm

Session 10: Income Distribution and Redistribution.

Session 11: Principles of Taxation.

Session 12: Principles of taxation (cont’d.)

Session 13: Midterm 3

Session 14: Public choice and the Politics of Budgeting and Taxation.

Session 15. Public Choice (cont’d). Fiscal Federalism; Limitations of Economics.


Session 16. Final (comprehensive)
IV. HOMEWORK QUESTIONS

The following questions are designed to help you test your understanding of and ability to apply course material. You should come to the session indicated below prepared to both provide an answer to the question for that session and also to explain your reasoning for the answer, drawing graphs where appropriate. Your exams will take the form of questions of this type.

Session 3

1. Which of the following is illustrated by a production possibility frontier?
   a. scarcity
   b. opportunity cost
   c. prices of goods and services
   d. a. and b.
   e. all of the above

2. An outward shift (shift to the right) in the production possibility frontier would occur if there were:
   a. increased illegal immigration
   b. discovery of new energy resources
   c. a significant reduction in unemployment
   d. Either a. or b.
   e. Any of the above events

Questions 3-4 are based on the following information:

A study has been instituted to determine the benefits and costs of an environmental protection program at different levels and the results are listed in the following table. Figures for total costs of the program are also included (hint: these are not marginal benefits and costs):

<table>
<thead>
<tr>
<th>Units of Environmental Protection</th>
<th>Total Social Benefits (Millions of dollars)</th>
<th>Total Social Costs (Millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>120</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>230</td>
<td>200</td>
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<td>500</td>
<td>500</td>
</tr>
<tr>
<td>6</td>
<td>570</td>
<td>600</td>
</tr>
</tbody>
</table>
3. The estimated marginal (or additional) social benefit of the second unit of environmental prevention is:
   a. $30 million
   b. $100
   c. $110 million
   d. $200 million
   e. $230 million

4. The economically efficient level of environmental protection is (hint: calculate MSB & MSC for all output levels):
   a. 1 unit
   b. 3 units
   c. 4 units
   d. 5 units
   e. 6 units

Session 4

1. Solar energy companies are having difficulty selling solar panels. According to supply and demand theory, this suggests that the price of solar panels is:
   a. currently above the equilibrium price
   b. currently below the equilibrium price
   c. can be expected to rise
   d. a. and c.
   e. b. and c.

2. Which of the following is likely to cause the demand for private college education to decrease (i.e. shift its demand curve to the left)?
   a. a reduction in government subsidized loans to students for college education
   b. a reduction in tuition fees for public (state) college education
   c. an increase in tuition fees for private college education
   d. a. or b
   e. any of the above

3. According to supply and demand, providing subsidies to buyers of health care insurance can be expected to lead to:
   a. higher prices for health care
   b. lower prices for health care
   c. an increased quantity of health care supplied
   d. a. and c.
   e. b and c.
4. An increase in public school teachers' wages and a decrease in the quantity of public school teaching services offered can be expected to result from:

a. the provision of vouchers to parents for private schools
b. federal subsidies to school districts to hire new teachers
c. allowing college graduates without education certificates to teach
d. tougher standards for teaching certification

Session 5

1. The demand for health care is inelastic. This means that, when price decreases by a given percentage:

a. the quantity demanded of health care will decrease by a smaller percentage
b. the quantity demanded of health care will increase by a larger percentage
c. the quantity demanded of health care will remain unchanged
d. the quantity demanded of health care will increase by a smaller percentage
e. none of the above

2. A city wants to increase revenues from fees charged for its municipal golf course and swimming pool. It has been determined that the demand for golf is price elastic but the demand for swimming is price elastic. To increase revenues, the city should:

a. increase golf fees and decrease swimming fees
b. increase golf fees and swimming fees
c. reduce golf fees and increase swimming fees
d. reduce golf fees and swimming fees

3. Assuming that, in the absence of government intervention, the market for timber operates efficiently, it follows that subsidies to timber producers:

a. lead to economic inefficiency because it will result in marginal social cost exceeding marginal social benefit for timber
b. result in a smaller than efficient output of timber
c. lead to an increase in the price of timber
d. a. and c.
e. none of the above

4. A decision to change the level and/or mix of services provided by government so as to achieve economic efficiency:

a. will lead to a Pareto-optimal outcome
b. will result in a situation where the winners from the change could compensate the losers
c. will provoke no opposition by citizens
d. a. and b.
e. all of the above
Session 7

1. An external cost arises from the use of SUV’S because of global warming. If SUV’s are sold in a competitive market:
   a. The marginal social cost of SUV’s is less than their marginal private cost
   b. the marginal social cost of SUV’s will exceed their marginal private cost
   c. the marginal social benefit of SUV’s will be less than their marginal social cost
   d. a. and c.
   e. b. and c.

2. If, at existing levels of pollution control, the marginal cost of pollution control for a given discharge is greater than the marginal cost of pollution caused by that discharge, government should:
   a. increase pollution taxes
   b. decrease pollution control activities
   c. increase pollution control activities
   d. prosecute more polluting firms

3. The marginal cost per unit of a pollutant discharged into a river by a competitive chemical industry is estimated at $30 per ton. A pollution tax of $50 per ton is in effect. The marginal cost to the firm of cleaning up a ton of discharge is $60 at current clean-up levels. Given these conditions:
   a. the firm will not clean up any more of the discharge and this is the correct decision from the point of view of economic efficiency
   b. the firm will not clean up any more of the discharge but this is not the correct decision from the point of view of economic efficiency because pollution is not reduced.
   c. the firm will clean up more of the discharge and this is the correct decision from the point of view of economic efficiency because pollution is reduced
   d. the firm will clean up more of the discharge but this is not the correct decision from the point of view of economic efficiency

4. An external benefit results from external home maintenance. If external home maintenance is sold in a competitive market, it follows that:
   a. too much external home maintenance will be produced unless a subsidy is provided for it
   b. too little external home maintenance will be produced unless a subsidy is provided for it
   c. too much external home maintenance will be produced unless a tax is imposed on it
   d. too little external home maintenance will be produced unless a tax is imposed on it
Session 8

1. The following actions can save lives. All of these are public goods **except**:
   
a. the provision of clean air
b. the control of communicable diseases
c. public housing
d. a reduction in gun ownership by criminals
e. none of the above

2. A good must be a public good if:
   
a. one person's consumption of a unit of the good does not exclude others from consuming that unit
b. a majority of citizens want government to provide the good
c. the market makes it difficult for those who cannot afford the good to obtain the amount they need
d. government finances the good and provides it at a zero price to consumers
e. all of the above

3. An Asphalt plant owned by the city currently produces 250,000 tons of asphalt for road repairs. It has annual costs of $3,000,000. Of these $500,000 are fixed costs and the rest are variable costs. Costs are assumed to rise in a straight-line fashion with output. If output rises to 300,000 tons, annual total costs will be:
   
a. $3,600,000
b. $3,500,000
c. $3,000,000
d. $3,100,000

4. Suppose the city can purchase asphalt from a private firm for $20 per ton. The breakeven output for the city plant is then:
   
a. 200,000 tons
b. 150,000 tons
c. 50,000 tons
d. 120,000 tons
Session 9

1. Two government projects each have an investment cost of $30 million. Project X yields $6 million per year for the first four years and then yields $4 million per year for four years after that. Project Y yields $5 million per year for eight years. Assuming a discount rate greater than zero, which of the following statements is accurate?

   a. Since total future benefits exceed the investment cost for both projects, both projects must always have a positive net present value
   b. The net present value of Project X will be greater than the net present value of Project Y
   c. The net present value of Project Y will be greater than the net present value of Project X.
   d. The net present value of the two projects will be the same
   e. b. or c. may be true depending on the discount rate selected

2. A city is considering whether or not to build a parking garage. The front-end investment cost to acquire the land and build the garage is $26 million. The garage is expected to yield a net annual income of $2 million for 40 years. Assuming a discount rate of 8%, on the basis of a cost-benefit analysis using these figures, the garage has:

   a. a net present value of about minus $2 million and should not be built
   b. a net present value of about $24 million and should be built
   c. a net present value of about $54 million and should be built
   d. a net present value of about minus $286 million and should not be built.
   e. a net present value of about $2 million and should be built.

3. When cost-benefit analysis is used for evaluating capital projects, using a higher discount rate:

   a. will lead to the adoption of more projects since it indicates a higher expected return
   b. will lead to the adoption of less projects
   c. a. or b. depending upon the magnitude of future benefits from particular projects
   d. will not affect the number of projects adopted because both costs and benefits must be discounted in a cost-benefit analysis.

4. Property tax revenues for a school district for the past 5 years have been:

   
   2012  $22 million  
   2013  $26 million  
   2014  $26 million  
   2015  $22 million  
   2016  $20 million
Which revenue forecasting technique will provide the lowest estimate of revenues for 2017?

a. Simple moving average
b. Exponential smoothing with $\alpha=0.6$
c. Transformation moving average

Session 11

1. A comparable worth study indicates that day-care workers are relatively underpaid. As a result, government enacts a law requiring that employers pay day-care workers higher wages. According to supply and demand, this will result in all of the following EXCEPT:

   a. An increase in the quantity of day-care worker services employed
   b. An increase in the number of workers seeking employment in day-care
   c. Increased unemployment among day-care workers
   d. Higher wages for day-care workers employed

2. A cash subsidy designed to replace public housing subsidies and leave recipients just as well off would:

   a. Cost the taxpayer more than housing subsidies
   b. Cost the taxpayer less than housing subsidies
   c. Increase the demand for housing
   d. b. and c.
   e. a. and c.

3. One of the problems in providing increased cash to the poor, from an economist’s point of view, is that:

   a. It may reduce incentives to work
   b. The poor will not spend the cash on what they really need
   c. It is not target efficient
   d. All of the above

4. Families of four are to be supported at a minimum income of $12,000 per year by a negative income tax program with a tax rate of 40%. A family is able to earn $10,000. Its total income including earned income and the negative tax payment will be:

   a. $30,000
   b. $18,000
   c. $22,000
   d. $14,800
   e. $16,000
Session 12

1. Proposals for a simplified "flat-rate tax" call for the abolition of most tax deductions and credits and for the taxation of all income above a certain minimum tax-free level at the same rate. Under such a tax plan, for those paying taxes:
   
a. the marginal tax rate would exceed the average tax rate
b. the marginal tax rate would be equal to the average tax rate
c. the marginal tax rate would be less than the average tax rate
d. the tax would be regressive
e. c. and d.

2. Horizontal tax equity means that:
   
a. all people should pay equal taxes
b. the "rich" should pay more taxes than the "poor"
c. people in the same economic circumstances should pay equal taxes
d. the distribution of income after taxes should be equal

3. According to supply and demand, the market wage will rise and employment will fall as a result of:
   
a. a tax on labor paid by employers
b. a tax on labor paid by employees
c. either a. or b.
d. none of the above

4. According to supply and demand, which of the following is true in regard to the effects of increasing the cigarette tax imposed on cigarette sellers:
   
a. the increase in the tax burden on smokers and the reduction in smoking will be smaller, the more elastic is demand with respect to price.
b. the increase in the tax burden on smokers will be smaller and the reduction in smoking will be larger, the more elastic is demand with respect to price
c. the increase in the tax burden on smokers will be larger and the reduction in smoking will be smaller, the more elastic is demand with respect to price
d. the increase in the tax burden on smokers and the reduction in smoking will be larger, the more elastic is demand with respect to price
1. At present, customer purchases of goods and services over the internet are exempt from state sales taxes. Abolishing this exemption would lead to
   a. greater horizontal equity in sales taxation
   b. increased state sales tax revenues
   c. increased purchases and sales of goods and services over the internet
   d. a. and b.
   e. all of the above

2. Assuming that wage levels are higher for those households who possess university degrees, a large increase in income tax rates for higher income households can be expected to lead to (Hint: What happens to the after-tax income differential between occupations that require a degree and those that do not?):
   a. reduced demand for higher education
   b. lower tuition
   c. lower pre-tax wages in occupations not requiring a university degree
   d. a and b
   e. all of the above

3. If a tax is imposed on the sellers of soft drinks,
   a. the burden of the tax on buyers will be larger and the deadweight loss from the tax will be smaller when the demand for soft drinks is more elastic with respect to the price.
   b. the burden of the tax on buyers will be smaller and the deadweight loss from the tax will be larger when the demand for soft drinks is more elastic with respect to the price.
   c. the burden of the tax on buyers and the deadweight loss from the tax will be smaller when the demand for soft drinks is more elastic with respect to the price.
   d. the burden of the tax on buyers and the deadweight loss from the tax will be larger when the demand for soft drinks is more elastic with respect to the price.

4. Assuming real estate buyers seek to maximize their returns on their investments, raising the local property tax rates in a particular jurisdiction is likely to lead to:
   a. reduced demand and lower prices for real estate in that jurisdiction
   b. increased demand and higher prices for real estate in surrounding jurisdictions
   c. reduced demand and higher prices for real estate in that jurisdiction
   d. a. and b.
   e. b. and c.
Session 15

1. Three equal size groups, A, B, and C, are voting on the building of a public day-care facility. The facility will provide $10,000 of annual benefits per head to members of group A, $12,000 of benefits per head to group B, and $5000 of benefits per head to group C. The annual cost to be shared equally will be $8,000 per head. According to economic theory:

a. majority rule will result in building the facility
b. the facility should be built on efficiency grounds
c. the facility should not be built on efficiency grounds
d. a. and b.
e. a. and c.

2. A County Commission with three members is faced with choosing one of three projects; a housing program (H), a roads program (R), and a parks program (P). Commissioner Gordon prefers H to R and R to P. Commissioner Peters prefers R to P and P to H. Commissioner Schmidt prefers P to H and H to R. Assuming that the programs are voted on two at a time, which is the clear preference of the Commission as expressed through majority rule?

a. the housing program
b. the roads program
c. the parks program
d. none is the clear preference

d. none is the clear preference

3. A community is considering four education budgets. Budget A calls for spending of $79 million, budget B calls for spending of $83 million, budget C calls for spending of $86 million, and budget D calls for $89 million. Budget A is preferred by 35% of voters, budget B is preferred by 20% of voters, budget C is preferred by 5% of voters and budget D is preferred by 40% of voters. If they cannot obtain their most preferred budget, voters will choose the budget that is closest to their most preferred budget in terms of dollars spent. Assuming that the budgets are voted on two at a time with two rounds of voting, majority rule would lead to:

a. adoption of budget A
b. adoption of budget B
c. adoption of budget C
d. adoption of budget D
e. no clear winner
4. According to public choice theory, educational policy-makers are most likely to be subject to organized political pressure exerted by groups of:

a. teachers  
b. taxpayers  
c. parents  
d. voters

Session 16

1. The efficiency problem with a budget-maximizing bureaucracy arises because it produces at a level where:

a. total social cost exceeds total social benefit  
b. marginal social benefit exceeds marginal social cost  
c. total social cost exceeds the minimum cost of the output provided  
d. total social benefit equals total social cost  
e. marginal social benefit equals marginal social cost

2. A decentralized system of government

a. tends to result in uniformity in the level and mix of government services between jurisdictions  
b. allows diversity in the level and mix of government services  
c. makes it easier to reach national goals for government services  
d. is undemocratic

3. According to most economists, the stabilization function is most effectively carried out by:

a. a national government  
b. a local government  
c. a state government  
d. a regional government

4. Suppose investment in crime control by local jurisdictions in urban areas leads to increased public safety both for their citizens and those of surrounding jurisdictions. In this case, a national or state government could best improve economic efficiency by:

a. providing an unconditional or general-purpose grant to local jurisdictions to enable them to afford more crime control  
b. providing a block grant that pays for the full cost of investments in crime control  
c. providing a matching categorical grant that pays for the spillover or inter-jurisdictional benefits of crime control