

ECON 231 — Public finance

Syllabus

University of Pennsylvania
Margaux Lufade
Spring 2021

Course Logistics

Class time and location.

- Tuesday and Thursday, 10:30am-12pm ET
- Zoom meeting ID will be sent as an email or an announcement on Canvas to the class

Course instructor. Margaux Lufade, email: mlufade@sas.upenn.edu

Office: Perelman Center for Political Science and Economics (PCPSE), office 603.

Office hours: Monday, 9-10am ET; Thursday 5-6pm ET.

Email policy: You can expect me to respond to emails within 48 hours, and from 9 to 5, Monday through Friday.

Teaching assistant. Andrew Arnold, email: ajarnold@sas.upenn.edu

Office hours: Monday, 3-5pm ET.

Canvas. All resources for the class will be available on the Canvas course site:

<https://canvas.upenn.edu/courses/1568269>

Recorded lectures, slides, problem sets, homework solutions and other relevant resources for the class will be posted on Canvas.

I may occasionally provide additional lecture notes, slides, or extra readings to support in-class discussion. These will also be posted on Canvas.

Course description and material

Synopsis. The main goals of this course are to develop an understanding of why and how the government may intervene in the economy, and to study the effect of government expenditure programs and taxation systems on the welfare and behavior of citizens. This course will include an analysis of the theoretical bases that guide government intervention in the economy; the discussion of a range of issues in public finance with a focus on current policy debates; and the presentation of empirical methods used in economics to evaluate the effect of public policies.

Prerequisites. Econ 101 (intermediate microeconomics), Math 104 (Calculus I), as well as Math 114 (Calculus II) or Math 115 (Calculus II with Probability and Matrices) are required for this class. Econ 103 (Statistics for Economists) is recommended.

Textbook. Lectures and class discussion will mostly follow the following textbook:

Jonathan Gruber, *Public Finance and Public Policy* (5th Edition) WORTH Publishers, 2016.

The book is available at the Penn bookstore, or may be purchased online. Note: The 4th edition is an acceptable substitute. The newer 6th edition has just come out and can be used too.

Exam material. Exam questions may cover everything discussed in class, in the problem sets, or on the Canvas discussion board, as well as everything in the relevant chapters of the textbook (we will not cover all the chapters of the book; relevant chapters of the textbook are listed in the tentative lecture schedule at the end of this syllabus), and supplemental documents I may distribute.

Problem set questions, as well as questions I will ask in class to guide our discussion, are designed to be representative of what you may expect during the exams.

Grades and examination

Course grades will be determined by performance on three midterm exams (including one at the very end of the semester) and problem sets, in the following proportions. There will be no extra-credit assignment.

- The third midterm will account for 17% of the grade
- The first midterm exam will account for 17% of the grade
- The second midterm exam will account for 17% of the grade
- Problem sets will together account for 40% of the grade
- In-class participation will account for 9% of the grade

Though the exact distribution of grades varies from year to year, I will target an average grade of B+.

Midterm exams. All exams will be timed asynchronous exams. You will have a 36-hour window to complete the test. In terms of material, exams will be cumulative. Collaboration and/or communication between students will *not* be permitted during the exams. The tentative dates for exams are:

- First midterm: Thursday, February 18th.
- Second midterm: Thursday, April 1st.
- Third midterm: Thursday, April 29th.

Problem sets. Problem sets will be assigned weekly and due on Tuesdays at the beginning of class (10:30am ET). It is okay for students to work in small groups and discuss problem sets. Every student is however responsible for their own and personal write-up, and must turn in an individual version of the homework (no copies similar to study group members). Even if you and your friend came up with the answer discussing together, you are expected take a moment to write up this answer by yourself, and to justify that answer and explain the reasoning in your own words.

Class policies

Academic integrity. It is your responsibility to be familiar with the University's Code of Academic Integrity, and to abide by its rules. Note the Economics Department's policy on academic integrity, which you can find on the Department's website:

Academic integrity is a very important part of student life, and the Department of Economics takes it seriously [...] Students who are suspected of committing infractions will be reported to the Office

of Student Conduct [...] The Department reserves the right to undertake procedures that would catch breaches of academic integrity, should any arise.

Problem sets deadlines. Due dates will be specified for each of the problem sets, as they are assigned. You are expected to turn in your homework by the deadline. You should make arrangements to turn in your work *early* if you expect a conflict to arise at the time the homework is due. *No* deadline extension will be granted to accommodate job interviews —problem sets are assigned and scheduled sufficiently ahead of time for you to have time to complete the homework if you plan ahead and don't start at the last minute. Pages of homework turned in late because of stapling omission or dysfunction will *not* be accepted.

Exam attendance policy. I will follow the Economics Department's policy on exam attendance (or, this semester, completion of the exam within the allocated 36-hour window), which you can find at:

<https://economics.sas.upenn.edu/undergraduate/course-information/course-policies>

In cases where attendance at (resp., completion within the allocated 36-hour window) a midterm or a final exam is mandatory, there are only a few valid excuses for missing an exam. They are:

- Three exams scheduled within one calendar day (for final exams ONLY!) This policy of three exams does not count for midterm exams given during class time.
- An exam is given outside of the regular class schedule and the timing conflicts with another class in which the student is enrolled.
- Observance of a university-recognized religious holiday.
- UPENN Business that takes you away from campus. Absence from campus on UPENN business includes, for example, athletic events in which you are actively participating. In such cases, you need to make arrangements with your professor ahead of the exam date to take the exam at another time (preferably earlier than the schedule date).
- An illness/health emergency.
- A death in your family.
- Documented disabilities that allow you to take the exam under other circumstances.

Examples of reasons that are *not* valid for missing an exam are:

- job internships/ interviews
- beginning fall or spring break early or returning after a scheduled exam
- end of semester early flights
- take home exams
- any other reason you would prefer not to be at the university when the exam is scheduled

Students are responsible for making sure, at the beginning of the term, that they can attend the exams. Registering for a course means that you certify that you will be present for the exam (unless one of the explicitly stated exceptions above arises.)

Students who arrive late to an exam will generally be required to hand in their exam at the same time as other students.

Make-up midterm exams. There will be no make-up midterm exam. If you miss a midterm because of one of the valid excuses listed above, your final exam grade will be used as a replacement for the missed midterm grade, on top of counting as the final exam grade. That is, if you miss a midterm because of one of the valid excuses listed above, the final will make up 40% of your grade for the course. If you miss a midterm without one of the valid excuses listed above, you will get a 0 at that midterm, and it will count with weight 20% towards your final course grade.

Regrade policy. Regrade of exams and problem sets may be requested, if you find a clear and compelling error in the way your exam was graded. The procedure for requesting a regrade is to submit to me a one-page typed petition detailing the supposed grading error.

No regrade request will be accepted for exams that are written in pencil and/or look altered.

In addition, note the following economics department's policies on grading requests:

Errors in grading arising from illegible or garbled answers are not subject to correction. [Your answers must be legible. Answers that I and/or the grader cannot read or understand, regardless whether it is due to poor hand-writing, grammar or anything else, will be deemed wrong.]

Students should not approach either the instructor or the TA with an oral request before making their written request. Requests should be focused on the specific error and should be made within a week of the work being returned.

The entire graded work (problem set or examination) should be resubmitted; there is no guarantee that grades will rise as, statistically, positive and negative errors in grading are equally likely.

If the request arises because you think different students have been graded differently, all the affected students should submit their work as a group [and may all be regraded].

Sharing class material. Course documents—including problem sets, practice exams, exams, and their respective solutions—are to be used **exclusively** by students enrolled in this course, and are not to be shared with people outside of this class. Regardless of whether documents are physically distributed in class or posted on the Canvas course site, **any re-posting online (including on any course material sharing website) is prohibited.**

Tentative lecture schedule

Week #	Class #	Week day	Date	Lecture topic / slides	Homework due	Textbook chapter
1	1	Thu	21-Jan	Intro		2.3
2	2	Tue	26-Jan	Externalities (1/2)	HW 1	5; 6.1; 6.2; 3
	3	Thu	28-Jan	Externalities (2/2)		
3	4	Tue	2-Feb	Public goods (1/2)	HW 2	7; 9.1; 10.2
	5	Thu	4-Feb	Public goods (2/2)		
4	6	Tue	9-Feb	Causal inference	HW 3	3
	7	Thu	11-Feb	Education		11; 10.3
5	8	Tue	16-Feb	Income distribution (1/2)	HW 4	17; 12.5
	9	Thu	18-Feb	Midterm 1		
6	10	Tue	23-Feb	Income distribution (2/2)	HW 5	17; 12.5
	11	Thu	25-Feb	Social insurance: theor. foundations (1/2)		12
7	12	Tue	2-Mar	Social insurance: theor. foundations (2/2)	HW6	
	13	Thu	4-Mar	Social security (1/2)		13
8	14	Tue	9-Mar	Social security (2/2)	HW 7	
		Thu	11-Mar	Spring break		
9	15	Tue	16-Mar	UI + DI + WC (1/2)	no hw	14
	16	Thu	18-Mar	UI + DI + WC (2/2)		
10	17	Tue	23-Mar	Health insurance (1/2)	HW 8	15; 16
	18	Thu	25-Mar	Health insurance (2/2)		
11		Tue	30-Mar	Engagement day		
	19	Thu	1-Apr	Midterm 2		
12	20	Tue	6-Apr	Taxation: basics	no hw	18
	21	Thu	8-Apr	Tax incidence		19
13	22	Tue	13-Apr	Tax inefficiencies + Optimal taxation (1)	HW 9	20.1
	23	Thu	15-Apr	Optimal taxation (2)		20.2; 20.3
14	24	Tue	20-Apr	Labor taxation	HW 10	21
	25	Thu	22-Apr	Capital taxation		22; 23
15	26	Tue	27-Apr	Review	HW 11	
	27	Thu	29-Apr	Midterm 3		

Additional readings

Externalities

Josh Barro (2014). *Don't Want Me to Recline My Airline Seat? You Can Pay Me*. New York Times, August 27, 2014.

Robert Stavins (1998). "What Can We Learn from the Grand Policy Experiment? Lessons for SO2 Allowance Trading." *Journal of Economic Perspectives*, Vol 12, No. 3: 69–88.

Christina Anderson *et al.* (2018) *Three Far-Flung Cities Offer Clues to Unsnarling Manhattan's Streets*. New York Times, February 26, 2018.

Public goods

John Tierney (2000) *A Tale of Two Fisheries*, NY Times Magazine, August 28, 2000.

Education

Dennis Epple, Richard Romano, and Miguel Urquiola (2017). "School Vouchers: A Survey of the Economics

Literature.” *Journal of Economic Literature*, 55(2): 441–92.

Derek Neal (2018). *Information, Incentives, and Education Policy*. Harvard University Press.

Income distribution

Hanming Fang and Michael Keane (2006). “Assessing the Impact of Welfare Reform on Single Mothers.” *Brookings Papers on Economic Activity*, 2004, Volume 1: 1–116.

Welfare reform A patchy record at 20. *The Economist*, August 20, 2016

Poverty in America: No money no love. *The Economist*, August 20, 2016

SNAP Back to Reality. NPR, *The Indicator* from Planet Money, May 17, 2018.

Social insurance

Martin Feldstein (2005). “Rethinking Social Insurance.” NBER Working Paper No. 11250.

Jessica Greene (2018). *Medicaid Recipients’ Early Experience with the Arkansas Medicaid Work Requirement*. *Health Affairs*, September 5, 2018.

Social security

Martin Feldstein (2005). “Structural Reform of Social Security.” *Journal of Economic Perspectives*, Spring 2005: 33–55.

Health insurance

John H. Cochrane, *After the ACA: Freeing the market for health care*. October 18, 2012.

Karl Denninger (2017). *The Bill to Permanently Fix Health Care for All*. Market Ticker Blog.

Hanming Fang (2017). “The Economic Realities of Replacing the Affordable Care Act.” *Wharton Public Policy Initiatives Issue Brief*, Volume 5, No. 3.

Milton Friedman (2001). *How to Cure the Health Care*. *The Public Interest*. Winter 2001.

Paul Howard and Stephen T. Parente (2010). *Toward Real Health Care Reform*. *National Affairs*, 2010.

Paul Krugman, *Health Care Reform Myths*. March 12, 2010, *New York Times*.

Empirical Methods

Joshua Angrist and Alan Krueger (1999). “Empirical Strategies in Labor Economics.” *Handbook of Labor Economics*, Vol. 3, Chapter 23: 1277–366.