Course: (EC 5353) Public Finance II
Instructor: Gary A. Hoover
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Course Description and Layout:
Public finance is the study of the economic functions or the role of a government and its associated institutions. The purpose of this course is to provide a survey of areas of this field with an emphasis on its microeconomic aspects. Therefore, knowledge of graduate level microeconomic theory and the ability to understand canonical micro arguments will be assumed.

The course will be divided into 3 sections. In Section 1 we will examine the role of government as it relates to areas of expenditure theory. Namely, we will be focusing on aspects of efficiency, efficacy, and optimality. Section 2 will have a discussion of Taxation. In Section 3 we turn our attention to Income Redistribution and an empirical analysis of some of the more salient points of expenditure theory. There will be an empirical examination following this material. The primary layout of the course is as follows:

Expenditure Theory

1. Edgeworth Boxes and Exchange Economies (Rosen and Gayer chapter 3)
   1.a Bergstrom Chapter 1 (not covered in class but needed)

2. Pure Public Goods
   2.a Bergstrom Chapter 2 (not covered in class but needed)
   2.b Optimality (Pareto)
      Method #1 (Social Welfare Functions)
      Method #2 (Additive MWTP Curves)
      Method #3 Kolm Triangles (Endowments, Goods, and Proofs)

3. Implementation
   Foley (for more reference see Takayama pages 204-232)
   Triangles

4. Tiebout
   Atkinson and Stiglitz

5. Externalities (Rosen and Gayer chapter 5)
   Missing Markets
   Bergstrom Chapter 5 (not covered in class but needed)

   Coase with Criticisms
Pigou

Demand Side

6. Club Goods
   Cornes and Sandler
   Scotchmer and Wooders

Taxation

1. Taxation and Efficiency (Rosen and Gayer chapter 15)
2. Inefficiency from Unit and Ad Valorem Taxes (Pauwels)
3. Excess Burden (Pauwels)
   CV and EV comparisons
   Expenditure Functions and Hicksian Demand

4. Optimal Commodity Taxation
   Ramsey rules and Inverse Elasticity rules
   Tresch, Chapter 4
   Tresch, Chapter 15

Income Distribution

1. Lorenz Curves
2. Income Inequality
3. Redistribution of Income

Cost/Benefit Analysis or Political Economy

If time permits.

Course Evaluation:
There will be two (2) aspects of my evaluation of your performance in this course:

1. The first are mid-term examinations which will occur upon the completion of each major topic.
2. The second is a paper or project outline (approximately 10-15 typed, double-spaced pages.) This paper should focus on a particular aspect of our considerations and should NOT attempt to go beyond a simple summarization of the literature in an area. Please get prior topic approval before starting. Any topic area listed in this syllabus is acceptable. In addition, next semester you will be exposed to other appropriate topics such as those listed in Public Finance 6773.
3. There will also be three (3) relatively straightforward homework sets given out. You will receive a grade of S for satisfactory or U for unsatisfactory. No formal grading will be done. Check with classmates to verify answers.

**Required Text:**

*Public Finance: A Normative Theory* 2nd Ed. by Richard W. Tresch. In addition, you are responsible for the readings.

**Plagiarism**

1. Student Handbook Definition: Representing the words, data, works, ideas, computer program or output, or anything not generated in an authorized fashion, as one's own. There are at least two types of plagiarism you need to be aware of as you prepare your course paper:

   (a) Wholesale copying of another's work, or submission of a paper which is wholly or largely the work of another.

   (b) Pulling material together from various sources without both paraphrasing the material (substantially transforming the material into your own words) and giving a clear citation to your source. If you use a word-for-word quote, you must use quotation marks and cite the source. While some direct quotation is acceptable in a paper, I want to see your writing; a paper which is largely a series of direct quotes is not acceptable. This means that in general, when you draw on sources directly, you must transform the material by putting it into your own words and then you must cite the source clearly. In your citation, include a page number along with the other standard information.

2. This is an extremely serious academic offense which can lead to your removal from the university.

3. Don't do it.

**Readings:**

*Expenditure Theory*


**Taxation**


Atkinson and Stiglitz, Chapters 12-14


**Income Distribution**


*Denote readings that are optional.