Econ 313: Public Finance
Spring 2022
Monday and Wednesday, 2:30-3:45
Room: Machmer Hall, Room W-26

Assistant Professor Katherine A. Moos
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Crotty Hall, Room 215
Office Hours: Tuesday, 1:45 – 3:45 pm, or by appointment
Office hours will be on Zoom, sign up via link on our Moodle page (under “Course Resources”)

**Description:** The study of public finance concerns the government's role in the economy. By collecting revenue through taxation, and spending those funds through public expenditure, the government plays a role in redistributing income, allocating resources, and stabilizing the economy. Questions concerning the role of government in the economy are among the most controversial and hotly debated topics in economic and political discourse. This course will equip students with the necessary tools and information to engage in intellectual debates about the purpose and effect of taxation, social insurance, and government spending in the United States.

**Learning Objectives:**
- students will understand the theoretical, empirical, and conceptual tools of public finance
- students will gain an understanding of the government's role in redistribution
- students will gain an understanding of social programs, social insurance, and taxation
- students will learn the economic basis and implications of common public policy debates

**Text and Readings:**
- Lecture notes will be posted on Moodle and must be read before class.
- Other assigned readings will be made available through a link on the syllabus, uploaded to Moodle, or emailed to the class.
- Chapters from Jonathan Gruber, *Public Finance and Public Policy* will be assigned as optional readings. You do not need to buy this book, but if you choose to, any edition is acceptable. The Fourth and fifth editions will be put on reserve in the library.
- Slack will be an important part of our class
  - Students must post by the night before class (Sundays and Tuesdays by 11:59 pm), except for during student presentations when posts can be done up to 2 days after class

**Policies:**

ATTENDANCE & PARTICIPATION: Class participation and group work are important to this course. Be sure to do the reading ahead of time and come prepared to participate.

MASKS: We will all follow University policy regarding mask-wearing in class. Any student who is not wearing a mask, or is wearing a mask inappropriately (ie not covering nose or mouth), will be asked to wear a mask. Eating and drinking are not allowed in class because they are not compatible with mask-wearing. I reserve the right to ask students to leave if they are in violation of this rule, and to
cancel class if they do not comply.

SICK DAYS & PROTECTING THE HEALTH OF OTHERS: If you are feeling unwell, especially if you have symptoms of a cold, flu, or COVID-19, do not come to class. Message your group members on Slack or email your group members (cc me at kmoos@umass.edu) and ask for accommodations. You can participate remotely by Zoom. Do not come to class when you are feeling ill.

JOINING CLASS REMOTELY: If you are unable to come to class, but are well enough to join by ZOOM, email or message your classmates. Students can help facilitate that their classmates are able to join by ZOOM.

CIVIL & RESPECTFUL PARTICIPATION: Our course will cover a number of controversial topics. Students are expected to participate in class discussions and debates respectfully. While it is not necessary to hold the same views as me or your classmates, it is essential that all students are respectful of differences of opinion. Comments that are disparaging or prejudicial in nature will not be tolerated. I reserve the right to ask students to leave class if they are not respectful.

ACADEMIC HONESTY: Academic dishonesty is prohibited in all programs of the University. Academic dishonesty includes but is not limited to: cheating, fabrication, plagiarism, and facilitating dishonesty. Appropriate sanctions may be imposed on any student who has committed an act of academic dishonesty. Since students are expected to be familiar with this policy and the commonly accepted standards of academic integrity, ignorance of such standards is not normally sufficient evidence of lack of intent. For more information about what constitutes academic dishonesty, please see the Dean of Students’ website: http://umass.edu/dean_students/codeofconduct/acadhonesty/

DISABILITIES: The University of Massachusetts Amherst is committed to making reasonable, effective and appropriate accommodations to meet the needs of students with disabilities and help create a barrier-free campus. If you need accommodation for a documented disability, register with Disability Services to have an accommodation letter sent to your faculty. It is your responsibility to initiate these services and to communicate with faculty ahead of time to manage accommodations in a timely manner. For more information, consult the Disability Services website at http://www.umass.edu/disability/.

LATE WORK/MISSING EXAMS: Barring true medical or personal emergencies, late assignments will not be accepted and exams will not be rescheduled.

COMMUNICATION: I expect that you check your UMass email and our Slack channel regularly. You may email me or send me a message via Slack at any time. Please use the course title in the subject line of emails. Under normal circumstances, I am able to respond to emails within a few business days.

OUTSIDE READING: As students of public finance, it is important that you keep abreast of the news. I will reference current events and debates that concern our studies, and may send out links to relevant articles. I highly recommend getting in the habit of reading a "paper of record," such as The New York Times, The Boston Globe, The Washington Post, The Financial Times, or The Wall Street Journal, regularly. Magazines such as The Economist can also be useful and interesting. For a critical analysis of
these and other news outlets, I recommend listening to the podcast "Counterspin" by the media-watch group FAIR.

**Evaluation and Assignments:**
1. Slack Posting and Commenting 20%
   (ongoing: before class until end of March, then after class)

2. Group Work and Classroom Participation 20%
   (ongoing)

3. Assignment 1: Interview a Family Member on Experience with Social Insurance Programs 10%
   due Thursday, 2/18 by 11:59 pm on Moodle

4. Mid-Term Exam: 20%
   (Wednesday, 4/6: In-Class Midterm Exam)

5. Final Paper & Presentation 30%
   i. Assignment 2: Paper Proposal and Bibliography 5%
      (due Friday 3/11 by 11:59 pm on Moodle)
   ii. Presentation 10%
       (in class during April and May, schedule TBD)
   iii. Final Paper 15%
       (due Monday, 5/9 by 11:59 pm on Moodle)

**INTRODUCTION & BACKGROUND**

1. **Wednesday, January 26: Introductions and Course Overview**
   (Lecture, Introduction to Groups, Discussion)

   **Required Readings:**
   - None

   **Assignment:**
   - Download and start using Slack
     - #IntroduceYourself channel
     - Comment on one other person’s post, perhaps you have something in common
     - Read and think about the discussion prompt (you do not need to post anything before class), but you can jot down some notes if you like.

   **Optional Reading:**
   - JG, Chapter 1, “Why Study Public Finance?” (optional)
Discussion prompt: Even before studying public finance at UMass, most of us come with opinions on what the government’s role should be in the economy. In your view, when and how should the government intervene in the economy? What justifies state intervention, and what are the best methods? How do your views on the economic role of the government shape your political beliefs, and vice versa?

PART I: COURSE CONTENT

MICROECONOMIC PRINCIPLES OF PUBLIC FINANCE & THEIR REAL-WORLD APPLICATIONS


Required Reading and Viewing:
- Class2LectureNotes
- Class2RecordedLecture

Assignment:
- Post a response to the prompt on slack #Class2
  - Comment on at least one classmate’s post

Optional reading:
- JG, Chapter 5 "Externalities: Problems and Solutions"
- JG, Chapter 7: "Public Goods"

Discussion prompt: Consider the positive and negative externalities and public goods of everyday life. Share some examples from your life and/or from media (movies/TV/social media influencers/etc). Do you have a neighbor who smokes cigarettes near your window, making your apartment smell bad? Or do you benefit from some positive externalities, like a neighbor with a beautiful garden, or a puppy you get to pet (but don’t have to take care of)? Also share some examples of public goods that you benefit from on a regular basis. Have you ever been a free-rider? For example, have you ever donated to Wikipedia, or your favorite podcast?

3. Wednesday, 2/2: Application: Addressing Externalities (Group Work and Discussion)

Required Readings:
- Class3LectureNotes
Assignment:
- Post a response to the prompt on slack #Class3
  o Comment on at least one classmate’s post

Optional reading:
- JG, Chapter 5 "Externalities: Problems and Solutions"
- JG, Chapter 6: "Externalities in Action: Environmental and Health Externalities"

Discussion prompt: Discuss the economic concept of externalities and how that relates to the economic effects of climate change. What policy responses exist and what are being pursued? What are the economic and political barriers of addressing this externality? What political and economic interests are at stake?

4. Monday, 2/7: Application: Public Goods and US Infrastructure (Group Work and Discussion)

Required Reading:
- Class4LectureNotes
- Updated news on Infrastructure Bill (TBA)

Assignment:
- Post a response to the prompt on slack #Class4
  o Comment on at least one classmate’s post

Discussion Question: Consider the current political discourse about funding for US “physical and human” infrastructure. Why is government funding for public good such as airports, roads, and bridges (now called “physical infrastructure” by the Biden administration) easier for Congress to agree to that funding for public goods such as education, healthcare, childcare, or other kinds of “human infrastructure” (as it is now being called)? What do you make of this new language—calling different kinds of public goods “infrastructure”? Does that help explain or obscure what it means to our economy and society? How would an understanding of public goods help—or hinder—getting more social programs and supports funded by the federal government?

5. Wednesday, 2/9: Key Concepts in the Microeconomics of Public Finance: Insurance Against Risk, Moral Hazard, Free Riding, and Adverse Selection
**Required Reading and Viewing:**
- Class5LectureNotes
- Class5RecordedLecture

**Assignment:**
- Post a response to the prompt on slack #Class5
  - Comment on at least one classmate’s post
- Post your paper topic idea in #FinalPaper
  - Comment on at least one classmate’s post
- Paper Proposal and Bibliography due Friday 9/16 by 11:59 pm on Moodle

Discussion Question for Moodle: If you were an economics professor at the University of Massachusetts Amherst, how would you design your course to minimize opportunities for free-riding and the risks of moral hazard, while maximizing learning and students’ interest? Is it fair to assume that some percentage of students would free-ride or be subject to moral hazard in the classroom setting, if such opportunities existed? Why or why not? What are the possible costs or negative consequences of designing a course with the goal of avoiding these potential problems? Is some chance of free-riding or moral hazard worth accepting, to create a better class, or should it be minimized at all costs?

(Group Work and Discussion)

**Required Readings:**
- Class6LectureNotes
- PBS. “Are unemployment benefits keeping Americans home? A look at US labor shortage”  
  [https://www.pbs.org/newshour/show/are-unemployment-benefits-keeping-americans-home-a-look-at-us-labor-shortage](https://www.pbs.org/newshour/show/are-unemployment-benefits-keeping-americans-home-a-look-at-us-labor-shortage)

**Assignment:**
- Post a response to the prompt on slack #Class6
  - Comment on at least one classmate’s post

**Discussion Question:** Consider how the theory of moral hazard affects US health and social policy. Explain some specific aspects of our health system, and how they are meant to address moral hazard. Do you think these policies are effective, efficient, and fair—why or why not? Next, explain the current argument that unemployment insurance must be cut in order to get people back to work. Do you think that this is an appropriate solution, now or ever? Why or why not?

**MACROECONOMICS AND PUBLIC FINANCE**

**7. Wednesday, 2/16: The Federal Budget, Deficit Spending, and Public Debt**  
(Group Work and Discussion)

Assignment:
- Post a response a response to the prompt on slack #Class7
  o Comment on at least one classmate’s post

Optional reading:
- JG, Chapter 4 "Budget Analysis and Deficit Financing"

Discussion prompt: Explain the economic arguments behind views that say that the deficit is a harmful economic problem especially for future generations and others who argue that the deficit and public debt are important tools to improve life for future generations. Which point of view do you find more convincing from an economic point of view? Which point of view do you find more politically appealing?

8. Tuesday, 2/22: The Role of Public Sector Jobs: Evidence from the 2019 Government Shutdown 2019 (Group Work and Discussion)

Required readings:
- Class8LectureNotes

Assignment:
- Post a response a response to the prompt on slack #Class8
  o Comment on at least one classmate’s post

Discussion prompt: Consider the role of the government in job creation. Discuss how the government can create jobs and increase employment. What is the economic argument for incentivizing the private sector? What is the economic argument for direct job creation through infrastructure projects or an expansion of the public sector? From a public finance perspective, discuss the differences and similarities between government spending on military personnel and weapons, versus schools, healthcare, infrastructure, etc? (Hint: be sure to distinguish between direct, indirect, and induced job creation.)
9. Wednesday, 2/23: Education
   (Group Work and Discussion)

Required readings:
- Class9LectureNotes

Assignment:
- Post a response to the prompt on slack #Class9
  o Comment on at least one classmate’s post

Discussion: Consider the arguments for and against educational vouchers. What are the economic, social, and political motivations for voucher programs? What are the economic, social, and political criticisms of voucher programs? Which do you find more convincing?

10. Monday, 2/28: Social Security
   (Group Work and Discussion)

Required reading:
- Class10LectureNotes

Assignment:
- Post a response to the prompt on slack #Class10
  o Comment on at least one classmate’s post

Optional reading:
- JG, Chapter 13 “Social Security”

Discussion prompt: Consider the debate over Social Security reform. What, if anything, do you think should be done to reform Social Security, and why? What are the pros and cons of reforms on tax revenue? What are the pros and cons of reforms on benefit levels? What are the pros and cons of privatization?

11. Wednesday, 3/2: Healthcare, 1
   (Group Work and Discussion)
Required reading:
- Class11LectureNotes

Assignment:
- Post a response a response to the prompt on slack #Class11
  o Comment on at least one classmate’s post

Optional Reading:
- JG, Chapter 15 “Health Economics and Private Health Insurance”

Discussion: Consider the four major healthcare models seen throughout the world and use this typology to help explain the U.S. healthcare system. How does the U.S. healthcare system compare internationally? Explain why high healthcare costs in the United States are a serious economic problem for workers, companies, and the government. What are some solutions for addressing high healthcare costs? Why do some advocate for Medicare-for-All or Single Payer? Explain the differences between the Affordable Care Act (ACA) and more recent proposals for Medicare-For-All or Single-Payer.

12. Monday, 3/7: Healthcare 2 (Group Work and Discussion)

Required readings:
- Class12LectureNotes

Optional Reading:
- JG, Chapter 16 “Medicare, Medicaid, and Health Care Reform”

Assignment:
- Post a response a response to the prompt on slack #Class12
  o Comment on at least one classmate’s post

Discussion Prompt: Consider the economic theories and mechanisms within the original Affordable Care Act (ACA). How did the Affordable Care Act (ACA) attempt to improve access and control costs? Why was the “individual mandate” an important part of the economics of Affordable Care Act? Explain how it was meant to protect against the so-called “death spiral”? Explain how and why economists expected that the repeal of the “individual mandate” in the 2017 Tax Act would undermine
health insurance markets and the effectiveness of the ACA? Be sure to include an economic discussion of risk pooling and adverse selection in insurance markets in your answer. Explain why you think the predictions of the ACA “death spiral” did not bear out.

*(Group Work and Discussion)*

Required reading:
- Class13LectureNotes
[https://www.peoplespolicyproject.org/2021/07/15/what-could-have-been-for-the-child-benefit/](https://www.peoplespolicyproject.org/2021/07/15/what-could-have-been-for-the-child-benefit/)

Assignment:
- Post a response a response to the prompt on slack #Class13  
  - Comment on at least one classmate’s post

*Discussion prompt:* Consider the bipartisan support enjoyed by the Earned Income Tax Credit (EITC). Explain why the policy is popular among both conservatives and progressives. How is Clinton’s expansion of the EITC similar and/or different when compared to Biden’s Child Benefit Credit? Compare the two policies, and what you think would be an *even* better way to help low-income people and families with children.

*Optional readings:*  
- JG, Chapter 17 “Income Distribution and Welfare Programs”

*(Group Work and Discussion)*

Required reading:
- Class14LectureNotes  

Assignment:
- Post a response a response to the prompt on slack #Class14
Comment on at least one classmate’s post

Optional Reading:
- Chapter 18 “Taxation: How it Works and What it Means”

Discussion prompt: Consider the meaning and effect of the Laffer Curve. What does the Laffer Curve predict? How has it influenced tax policy and debate? Why do critics call it “voodoo economics”? How might have the Laffer Curve affected the rise of economic inequality in the United States since the 1980s? Briefly describe the tax reform policies of Presidents Reagan, Bush, Clinton, W. Bush, Obama, and Trump. What are the similarities and differences?

15. Wednesday, 3/23: Corporate Taxes and Tax Avoidance
(Group Work and Discussion)

Required Readings:
- Class15LectureNotes

Assignment:
- Post a response a response to the prompt on slack #Class15
  Comment on at least one classmate’s post

Discussion prompt: Consider the problem of corporate tax avoidance. How has this problem emerged internationally? What are its root causes and consequences? How does corporate tax avoidance affect economic inequality, austerity, and international development? What are some solutions to corporate tax avoidance? What are the challenges to addressing the problem?

(Group Work and Discussion)

Required Reading:
- Class16LectureNotes

**Assignment:**
- Post a response a response to the prompt on slack #Class16
- Comment on at least one classmate’s post

Discussion prompt: Discuss Marianna Mazucatto’s work on the “entrepreneurial state” and “market-creating.” Why does Professor Mazucatto argue that it is not true that the state leaves dynamic entrepreneurship and innovation to the private sector? Why does she argue that basic research is a “public good”? What does she mean when she says that the risks of research and innovation having been socialized, but the rewards have been privatized? How does she propose socializing the rewards of public funding of research and innovation? How does this relate to the issue of corporate tax avoidance? How does this relate to the Covid-19 pandemic and vaccines?

17. **Wednesday, 3/30: Review Session for Midterm Exam #1**

18. **Monday, 4/4: Review Session for Midterm Exam #2**
   - No reading or assignment other than to study for midterm
   - Come prepared to class with questions to ask

19. **Wednesday, 4/6: In-Class Midterm Exam**
   - No reading or assignment other than to study for midterm

**PART II: STUDENT RESEARCH**

20. **Monday, 4/11: Student Presentations of Final Papers #1**
    (four students)
    - Assignment: post in #FinalPaper slack channel about one of your classmates’s presentation

21. **Wednesday, 4/13: Student Presentations of Final Papers #2**
    (four students)
    - Assignment: post in #FinalPaper slack channel about one of your classmates’s presentation

22. **Wednesday, 4/20: Student Presentations of Final Papers #3**
    (four students)
    - Assignment: post in #FinalPaper slack channel about one of your classmates’s presentation

23. **Monday, 4/25: Student Presentations of Final Papers #4**
(four students)
- Assignment: post in #FinalPaper slack channel about one of your classmates’s presentation

THANKSGIVING 11/24-11/28

24. **Wednesday, 4/27: Student Presentations of Final Papers #5**
   (four students)
   - Assignment: post in #FinalPaper slack channel about one of your classmates’s presentation

25. **Monday, 5/2: Student Presentations of Final Papers #6**
   (four students)
   - Assignment: post in #FinalPaper slack channel about one of your classmates’s presentation

26. **Wednesday, 5/4: Student Presentations of Final Papers #7 / Self-Assessment, Final Discussion and Wrap Up**
   - Assignment: post in #FinalPaper slack channel about one of your classmates’s presentation
   (1 student presentation)