ECONOMICS 131: PUBLIC ECONOMICS
Spring Term 2015

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Office Hours: Mondays 12-2pm in Evans 623 (2-4pm instead on March 2, March 16, March 30, April 27)

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Course Description

This course focuses on the role of the government in the economy. The aim is to provide an understanding of the reasons for government intervention in the economy, analyzing the benefits of possible government policies, and the response of economic agents to the government's actions. The course covers tax policy and inequality, social insurance programs, public goods, environmental protection, and the interaction between different levels of government. Special emphasis is on current policy issues such as social security reform, health care reform, income tax reform, and budget deficits.

Prerequisites: Economics 100a or 101a. Students should be comfortable with multivariate calculus.

Course Website: All lecture notes, handouts, and announcements will be posted online at: http://elsa.berkeley.edu/~saez/course131/course131.html
Lecture notes might be slightly updated so it is best to print them only shortly before the lecture date.
This course DOES NOT use B-space.

Requirements

1) Lectures – Mondays and Wednesdays 4pm-5:30pm (2060 Valley LSB).
2) Readings –
   http://bcs.worthpublishers.com/gruber4e/
   is optional but recommended textbook (the lectures follow loosely the Gruber book). Earlier editions of the textbook are totally fine.
The other readings discussed in the lecture notes can be found in the reference list for each lecture with web links to the pdf files.
Lecture notes will be posted on the course website. These notes are not comprehensive and not self-explanatory. Note also that lectures do not always cover 100% of the material from the slides. Therefore attending the lectures is critical for learning and for success in the class. Half of the credit for problem sets, mid-term, and final will be based on conceptual understanding of ideas taught in lectures. Half of the credit will be based on solving mathematical problems related to those covered in lectures and in sections.

Grading

1) Exams: Midterm 30%, Wednesday, March 18, 4:10pm-5:30pm in class
   Final 50%, Friday, May 15, 8-11am.
   Both midterm and final will be closed-notes (class notes, books, electronic devices or
   calculators are NOT allowed). Paper and pen only. Bring your own paper [and stapler if
   you don’t use a blue book and need to staple separate sheets]
   Final will be cumulative and based on the full material covered in class, including
   material tested in the mid-term.

2) Problem Sets: 4 problem sets 20% due February 25, March 11, April 8, April 29.
   Group work is permitted, but each student must write up and turn in his/her own solutions. All
   problem sets will be due on specific Wednesdays in class (no exceptions for late problem sets as
   solutions will be posted the same evening).

COURSE OUTLINE

The twenty-five 1.5-hour long lectures loosely follow the Gruber textbook. We first cover chapters 1-4 of
Gruber. Second, we cover the topics in chapters 17-25 but in a substantially different format than the
Gruber textbook. Finally, we cover chapters 5-16 of the Gruber textbook.

1) Introduction to public economics and review of tools– 4 Lectures
   Gruber, Chapter 1-4

2) Taxation and Redistribution I: Background and tax incidence – 3 Lectures
   Gruber, Chapters 17, 18, 19 [lectures do not follow Gruber textbook closely]

3) Taxation and Redistribution II: Labor Income Taxes and Transfers – 3 Lectures
   Gruber, Chapters 20, 21 [lectures do not follow Gruber textbook closely]

4) Taxation and Redistribution III: Capital Income Taxation – 3 Lectures
   Gruber, Chapters 22 & 23 & 24 & 25 [lectures do not follow Gruber textbook closely]

5) Role of the government I: Externalities – 1 Lecture
   Gruber, Chapters 5-6

   A) Basic theory (Gruber Chapter 7)
   B) Political Economy (Gruber Chapter 9)
   C) Local public goods (Gruber Chapter 10)
   E) Public Provision of Private Goods: Education (Gruber, Chapter 11)

7) Role of the government III: Social Insurance – 6 Lectures
A) Overview (Gruber, Chapter 12)
B) Social Security (Gruber, Chapter 13)
C) Unemployment Insurance, Workers Compensation, Disability Insurance (Gruber, Chapter 14)
D) Health Insurance (Gruber, Chapters 15 & 16)