

University of California, Berkeley
Department of Economics
Fall 2017

Professor Alan Auerbach
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ECONOMICS 131 PUBLIC ECONOMICS

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 responses of individuals and businesses to the government's actions. The course covers public expenditures, environmental protection, tax policy, social insurance programs, and the interactions between different levels of government. Special emphasis is on current policy issues such as income inequality, health care reform, budget deficits, climate change, and tax reform.

Class meetings: Monday and Wednesday, 5:10-6:30 pm, Hearst Mining 390

Office hours: Monday, 10:00-11:30 am

Graduate Student Instructors:

Dario Tortarolo (Email: dtortarolo@berkeley.edu)

Office hours: Friday, 2:00-4:00 pm, Evans 536

Sections: Wednesday, 2:00 pm, Wheeler 104

Wednesday, 3:00 pm, Dwinelle 255

Wednesday, 4:00 pm, Valley Life Sciences 2038

Francis Wong (Email: franciswonggsi@gmail.com)

Office hours: Thursday, 8:00-10:00 am, Evans 542

Sections: Thursday, 4:00 pm, Valley Life Sciences 2070

Thursday, 5:00 pm, Dwinelle 246

Thursday, 6:00 pm, Dwinelle 246

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

Readings: Jonathan Gruber, Public Finance and Public Policy, 5th edition, 2016 (<http://www.macmillanhigher.com/Catalog/product/publicfinanceandpublicpolicy-fifthedition-gruber>) is highly recommended as a textbook. The lectures follow the Gruber book loosely. Other readings discussed in the lecture notes can be found using web links to pdf files.

Lecture slides will be posted on the bCourses website. These slides are not comprehensive and not self-explanatory, and lectures will cover additional material not on the slides. Therefore attending the lectures is critical for learning and for success in the class.

Requirements: Problem sets (4), due Sep. 20, Oct. 4, Oct. 30, Nov. 20 20% of grade

Based on solving mathematical problems related to those covered in lectures and in sections; group work is permitted, but each student must write up and turn in his/her own solutions. All problem sets are due in class; no exceptions for late problem sets, as solutions will be posted the same evening.

Midterm Exam, Wednesday, Oct. 11, in class 30% of grade

Final Exam, Friday, Dec. 15, 3-6 pm 50% of grade

In addition, participation in section discussions will be used as a tie-breaker in cases where students are on the margin between two letter grades.

Both exams will be closed-notes (class notes, books, electronic devices or calculators are NOT allowed). Bring your own pen and paper (and stapler if you don't use a blue book and need to staple separate sheets).

Final exam will be cumulative and based on the full material covered in class, including material tested in the mid-term. Exams will be based on conceptual understanding of ideas taught in lectures.

Midterm regrade requests must concern an issue that is worth at least 3 points. For problem sets, regrade requests must be accompanied by a one-page explanation for why you think you deserve a regrade. Regrade requests must be received within one week of the assignment/exam being returned to you. Note that any re-grade request will result in the entire assignment or test being re-graded, with the possibility of an upward or downward adjustment to your assigned grade.

Enrollment: If you have any problems with enrollment, please contact Head GSI Katarina (Katja) Jensen (headgsi@econ.berkeley.edu). I have no authority over these matters.

If you require special accommodations for this class, please contact me and the Disabled Students Program (DSP) no later than three weeks before the midterm/final exam. The DSP office is located at 260 César E. Chávez Student Center, #4250. Details can be found online at dsp.berkeley.edu.

Outline:

There will be 26 lectures (Aug. 23, 28, 30; Sep. 6, 11, 13, 18, 20, 25, 27; Oct. 2, 4, 9, 16, 18, 23, 25, 30; Nov. 1, 6, 8, 13, 15, 20, 27, 29), which loosely follow the Gruber textbook. We first provide an introduction to public finance and a review of background tools. Second, we deal with the role of government in improving upon market outcomes. Third, we discuss the tax system and how it affects economic decisions and individual well-being. Finally, we explore a range of important government programs, including education and social insurance.

- 1) Introduction to Public Economics and Review of Tools – 4 Lectures
Chapters 1 – 4

- 2) Dealing with Market Failure – 3 Lectures
 - A) Externalities (Chapters 5, 6)
 - B) Public Goods (Chapter 7)
 - C) Political Economy (Chapter 9)

- 3) Taxation I: Background – 2 Lectures
 - A) Inequality and Redistribution (Chapter 17)
 - B) The US Tax System (Chapter 18)

- 4) Taxation II: Incidence, Deadweight Loss and Labor Income Taxation – 4 Lectures
Chapters 19 – 21

- 5) Taxation III: Capital Income Taxation and Tax Reform– 4 Lectures
Chapters 22 – 25

- 6) Fiscal Federalism and Education – 2 Lectures
 - A) Local Public Goods (Chapter 10)
 - B) Public Provision of Private Goods: Education (Chapter 11)

- 7) Social Insurance – 6 Lectures
 - A) Overview (Chapter 12)
 - B) Social Security (Chapter 13)
 - C) Health Insurance (Chapters 15, 16)
 - D) Unemployment & Disability Insurance, Workers Compensation (Chapter 14)