

Economics 6E176
Public Sector Economics
Spring 2007

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Objectives: This course develops tools to analyze the role of government taxation, and its effects on efficiency, inequality and the capacity to generate tax revenue. We will study from a systematic perspective a number of important questions: How do current taxes affect savings and labor supply? What are efficient ways to generate revenue? What would be the implications of proposals for reform of the U.S. tax system?

The focus of the course will be both on theoretical and applied analyses. In the core of the course we will study the basic concepts needed to assess the economic effects of taxes. We will then evaluate the effects of alternatives to change the current tax system. We will subsequently move towards the analysis of different topics. Among these topics are: (i) the economic effects of public pension systems (social security) and their potential reforms; (ii) the use of taxes and subsidies to solve the problem of externalities; (iii) the dynamic effects of taxation.

Class Materials: The textbook for the course will be Harvey Rosen, *Public Finance*, 7th Ed., McGraw-Hill, ISBN 0-07-287648-4. The book is available at Iowa Book and Supply.

You will also be responsible for material specifically presented/discussed in class, lecture notes and some articles. Lecture notes will be posted in .pdf format on the class web page. Articles assigned will be publicly available online.

Class Time: Tuesday and Thursday, 10:55A - 12:10P, S307 PBB.

Office Hours: Tuesday, 2:00-4:00 PM, or by appointment.

Grading: There will be a midterm (30%), one final (45%), and a set of assignments (25%). If you miss an assignment with prior my previous approval, the weight will be shifted to the other exam or assignments. If you miss the midterm, or the final (again with prior approval), you will take a make-up exam. If you miss a midterm or an assignment without prior approval, the corresponding grade will be zero.

Midterm Date: Thursday, March 8th, 2006.

Policy Issues:

- **Course Administration:** The administrative home for the course is the Tippie College of Business.
- **Plagiarism and Cheating:** The Tippie College of Business rules and regulations apply; in particular to instances of bad academic or social behavior on the part of the student. See the College's Honor Code (<http://www.biz.uiowa.edu/honorcode/>) for details.

Cheating, Plagiarism, Unauthorized Collaboration and Social Misconduct, will be dealt summarily and severely, within the limits of the TCB Honor Code, with outcomes ranging from loss of credit for specific exams, to failure or grade reduction for the course, to ejection from the course, as particular action warrants.

- **Student Complaints:** Any question, concern or issue that you think cannot be or have not been addressed by the instructor, you should seek the counsel of the Economics Department Executive Officer (Prof. Raymond Riezman, W210 PBB, 335-0829).

Topics:

A. Introduction to the Theory of Taxation.

1. Introduction (Chapter 1).
2. Positive and Normative Analysis (Chapter 2 and 3).

B. A Framework for Tax Analysis

1. Tax Policy and Economic Efficiency (Ch. 13).
2. Tax Policy and Income Distribution (Ch 12 and 14).

C. The U.S. Tax System: Current Structure and Potential Reforms

1. Overview (Ch. 15).
2. The Income Tax and Individual Behavior (Ch. 16)
3. The Corporate Income Tax (Ch. 17)
4. Deficit Finance (Ch. 18).
5. Taxes on Consumption and Wealth (Ch. 19, Lecture Notes).

D. Public Pensions.

1. Social Security (Ch. 9, Lecture Notes).

E. Tax Policy and the Problem of Externalities .

1. The Nature of Externalities (Ch. 5).