

PUBLIC FINANCE

Department of Economics, National Chi Nan University
Syllabus (Spring 2021)

Instructor: Yo-Long Lin

Contact: yolong@ncnu.edu.tw

Webpage: <http://staffweb.ncnu.edu.tw/yolong>

Time and Location: Thursday 9am-12pm in College of Management Building 215R

Office Hours: Tuesday 11am-1pm or by appointment

Class code: 110186

Course Objective:

Public finance, aka, public economics, can be viewed as the advanced microeconomics knowledge. This course will introduce the crucial and fundamental theories and the practice of public economics, including the economics of welfare foundations, public goods, externalities, public enterprise pricing, and several specific topics about government expenditures. Later, we will discuss some important theories of public revenues, such as public debt, taxation, and their relations to the economy.

Prerequisite:

Students are expected to have a good foundation in microeconomics. For instance, the ability to solve the household maximization problem.

Textbooks:

The course will follow a lecture format. However, I strongly recommend the following textbook that is very helpful for you:

1. Tsui, Waicho *et al.*, 2016, *Public Finance*, 4th Edition, Hwa Tai Publishing.

Also, there are some useful supplementary textbooks as follows:

1. Rosen, H.S. and T. Gayer, 2014, *Public Finance*, 10th Edition, McGraw-Hill Publishing.
2. Hindriks, J. and G.D. Myles, 2006, *Intermediate Public Economics*, The MIT Press.

Grading:

There will be one midterm (50%; scheduled on Thursday, April 22, 2021), and a final (50%; scheduled on Thursday, June 24, 2021). The final exam is not cumulative, that is, what has been covered in the midterm will not show up in the final.

Course Outlines:

0. Mathematics Review
1. Welfare Foundations
 - (a) Efficiency and Pareto Optimum
 - (b) Other Welfare Criteria

- (c) Equity
 - (d) FBWT and SBWT Foundations
 - (e) Market Failure
2. Externalities
- (a) Efficiency and Externalities
 - (b) Network Externalities
 - (c) Common Property Resources
 - (d) Correcting for Externalities
3. Public Goods
- (a) Characteristics of Public Goods
 - (b) Optimal Public Expenditures
 - i. Pigou's Approach
 - ii. Samuelson Model
 - iii. Voluntary Exchange Approach: Lindahl Model and Bowen Model
 - (c) Revelation Mechanism and Clarke Tax
 - (d) Congestible Goods and Club Goods
 - (e) Voluntary Provision of Public Goods and Private Charity
4. Specific Topics of Government Expenditure
- (a) Health Care: Taiwan National Health Insurance
5. Government Financial Management
- (a) Public Expenditure Theories
 - (b) Government Budget Accounting
 - (c) Fiscal Decentralization
 - i. Tiebout Model
 - ii. Intergovernmental Grants
6. Government Revenue
- (a) Fees
 - (b) Public Enterprise Pricing
 - (c) Public Debt
 - (d) Taxation Structure
 - (e) Tax Equity and Alternative Minimum Tax
 - (f) Tax Incidence and Transfer
 - (g) Tax Efficiency and Excess Burden
 - i. Tax Neutrality

- ii. Inverse Elasticity Rule
- iii. Optimal Tax System
- (h) Taxation and Behavior
 - i. Effect of Income Taxes on Labor Supply
 - ii. Effect of Linear Progressive Income Taxes on Labor Supply
 - iii. Negative Income Tax
 - iv. Effect of Income Taxes on Consumption and Saving
 - v. Effect of Income Taxes on Investment and Risks

Reading List:

1. Arrow, K. J., 1951, *Social Choice and Individual Values*, New York: Wiley.
2. Ballard, C. L. and D. Fullerton, 1992, Distortionary Taxes and the Provision of Public Goods, *Journal of Economic Perspectives*, 6:3, 117-131.
3. Buchanan, J. M. and W. C. Stubblebine, 1962, Externality, *Economica*, 29:116, 371-384.
4. Clarke, E. H., 1971, Multipart pricing of public goods, *Public Choice*, 11, 17-33.
5. Coase, R. H., 1992, The institutional structure of production, *American Economic Review*, 82:4, 713-719.
6. Samuelson, P. A., 1954, The pure theory of public expenditure, *Review of Economics and Statistics*, 36:4, 387-389.
7. Tiebout, C., 1956, A Pure Theory of Local Expenditures, *Journal of Political Economy*, 64:5, 416-424.