

Public Finance
Department of Public Finance
National Chengchi University

Course #: 000221021

Terms: Fall 2011 and Spring 2012 (100-1 and 100-2)

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Class Meetings: Sections 2, 3, and 4 (09:10–12:00), Wednesday

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Office Hours: Please check the course website

TA Office Hours: TBA

An Overview of Public Finance

- Public finance is a field of economics mainly concerned with government (or other collective organizations') activities and the associated economic effects. The understanding of government activities and the associated economic effects helps in the design and administration of public policies. The field is often divided into questions of what the government should do or are doing (expenditure side), and questions of how to pay for those activities (revenue side).
 - On the expenditure side, one may classify government expenditures into three main types. Government purchases of goods and services for current use are classed as *government consumption*. Government purchases of goods and services intended to create future benefits—such as infrastructure investment or research spending—are classed as *government investment*. Government expenditures that are not purchases of goods and services, and instead just represent transfers of money—such as social security payments—are called *transfer payments*. The economic effects of various government expenditures are the focus of expenditure-side studies.
 - On the revenue side, government financing can be achieved by taxes, debts (government borrowing), asset sales, seigniorage, and/or other means. How a government chooses to finance its activities *must have* effects on the distribution of income and wealth, and on the efficiency of markets. The issue of how taxes affect income and

wealth distribution is the focus of *tax incidence* studies; the issue of how taxes affect efficiency performance is the focus of *efficient taxation* studies. In addition, revenue side studies also analyze the effects of various types of taxes and types of borrowing as well as administrative concerns, such as tax evasion and enforcement.

- In addition to the term “public finance”, a broader term—public economics—and a narrower term—government finance—are also used often. As a late comer, the *public choice school* to public finance becomes somewhat popular from the 80’s. It seeks to explain how self-interested voters, politicians, and bureaucrats actually operate, rather than how they should operate.

The Role of Government

- It is hard to start a public finance course without thinking about the proper role of a government. If private markets are able to provide efficient outcomes and if the resulting distribution of income and wealth are socially “acceptable”, then there would be little scope (if at all) for the existence of governments. Nonetheless, conditions for private market efficiency are often (if not always) violated, and private markets pay little regards with respect to the distribution of income and wealth.
- “Market failure” occurs when private markets do not allocate goods or services efficiently. The existence of market failure provides an *efficiency-based* rationale for government provision of goods and services. On the other hand, *equity-based rationale* for government intervention is as important, though it often involves political judgments. Finally, there are also *ethical arguments* for government intervention.*

Course Aim and Class Materials

- The purpose of this course is to provide you with a theoretical framework in the discipline of public finance. My objectives are to stimulate thinking based on the framework, and to prepare you for continuing your pursuit in the field of public finance.
- For my purposes, I need to build up a systematic introduction to this subject. I decided to go through the textbook by Harvey S. Rosen and Ted Gayer, *Public Finance*, 9th edition, International Edition 2010, McGraw-Hill, ISBN: 978-007-126788-5. It is a standard textbook used by students of public economics majors. *You are required* to get a copy of this book.

*Having said this, at the beginning of the course, I would want you to be aware that government intervention and public provision of goods or services are also subject to all sorts of inefficiencies and equity problems—a situation called “government failure”.

- The main “problem” of using an American textbook is the lack of discussions with respect to the situations in Taiwan. Therefore, to complement the textbook, I am building up data corresponding to those presented in the textbook. This is going to be very useful for the comparison of what’s going on in Taiwan with other countries in the world.
- There are many other undergraduate level public finance textbooks available in the market. Some of them which appear on my bookshelf are listed at the end for your references. There is NO need to purchase any of those books. I want you to focus on the assigned textbook. “Good” materials in other textbooks will be introduced as supplementary materials.
- The class will be mainly in the format of lectures. For classroom slides, supplementary materials, news and announcements, please refer to the course website at: <http://www3.nccu.edu.tw/~joe/index.html>.

Course Requirements

I expect the majority of students interested in this course are public finance majors. I will push you hard on this course, and you should work hard. Tentatively, your final score will be based on the following:

- Exams (75%): There will be one mid-term exam and one final exam. The mid-term exam counts for 35% of your final score, and the final exam counts for 40%.
- Homework (25%): Problem sets will be assigned after we finish each topic. *The only real way to learn theory is to struggle with solving problems so I strongly encourage you to do the problem sets yourself.* You should consider problem sets as a self-checking device to make sure that things are “on the track”.
- Attendance: This course is intensive and demanding. It is difficult to keep up with the pace and to learn the materials all by yourself without attending the class. I strongly recommend you to attend each lecture ON TIME!

Course Outline

The plan is to use the first semester—100-1—to cover the expenditure side of the government. The following chapters in the assigned textbook will be covered:

- i. Introduction: Chapters 1, 2, and 3

- ii. Public Goods and Externalities (Expenditure Side)
 - (a) Public Goods (Chapter 4)
 - (b) Externalities (Chapter 5)
 - (c) Political Economy (Chapter 6)
 - (d) Cost-Benefit Analysis (Chapter 8)

- iii. Social Insurance and Income Maintenance (Expenditure Side)
 - (a) Deficit Finance (Chapter 22)
 - (b) Education (Chapter 7)
 - (c) The Health Care Market (Chapter 9)
 - (d) Government and the Market for Health Care (Chapter 10)
 - (e) Social Security (Chapter 11)
 - (f) Income Redistribution: Conceptual Issues (Chapter 12)
 - (g) Expenditure Programs for the Poor (Chapter 13)

The Second semester—100-2—mainly deals with the revenue side of the government. The following chapters in the assigned textbook will be covered:

- 1. A Framework for Tax Analysis
 - (a) Taxation and Income Distribution (Chapter 14)
 - (b) Taxation and Efficiency (Chapter 15)
 - (c) Efficiency and Equitable Taxation (Chapter 16)

- v. The Revenue System
 - (a) The Personal Income Tax (Chapter 17)
 - (b) Personal Taxation and Behavior (Chapter 18)
 - (c) The Corporation Tax (chapter 19)
 - (d) Fundamental Tax Reform (Chapter 21)

- vi. Multigovernment (Central and Local) Public Finance (Chapter 22)

Class Calendar

- Week-by-week schedule of 100-1:

Date	Content	Date	Content
Sep. 14	Introduction-1	Nov. 16	<i>Midterm</i>
Sep. 21	Introduction-2	Nov. 24	Deficit Finance
Sep. 28	Public Goods	Dec. 30	Education
Oct. 5	Public Goods	Dec. 7	The Health Care Market
Oct. 12	Externalities	Dec. 14	Government and the Market for Health Care
Oct. 19	Externalities	Dec. 21	Social Security
Oct. 26	Political Economy	Dec. 28	Income Redistribution: Conceptual Issues
Nov. 2	Political Economy	Jan. 4	Expenditure Programs for the Poor
Nov. 9	Cost-Benefit Analysis	Jan. 11	<i>Final</i>

- Week-by-week schedule of 100-2:

Date	Content	Date	Content
Feb. 22	Introduction-3	Apr. 25	Tax System in Taiwan
Feb. 29	Taxation and Income Distribution	May 2	Income Taxation
Mar. 7	Taxation and Income Distribution	May 9	Income Taxation
Mar. 14	Taxation and Efficiency	May 16	Income Taxation
Mar. 21	Taxation and Efficiency	May 23	Corporate Income Tax
Mar. 28	Efficient and Equitable Taxation	May 30	Corporate Income Tax
Apr. 4	no class	June 6	Fundamental Tax Reform
Apr. 11	Efficient and Equitable Taxation	June 13	Multigovernment Public Finance
Apr. 18	<i>Midterm</i>	June 20	<i>Final</i>

References

- *Public Finance*, Laurence S. Seidman, 2009, McGraw Hill Higher Education (ISBN: 0071276300).
- *Public Finance: A Contemporary Application of Theory to Policy with Economic Applications*, 9th edition, David N Hyman, 2007, South-Western College Pub (ISBN: 0324537352).

- *Public Finance: Principles and Policy*, John E. Anderson, 2002, Houghton Mifflin College Div (ISBN: 0618214496).[†]
- *A Course in Public Economics*, John Leach, 2004, Cambridge University Press (ISBN: 0521535670).
- *Economics of the Public Sector*, 3rd edition, Joseph E. Stiglitz, 2000, W.W. Norton & Co. (ISBN: 0393966518).
- *State and Local Public Finance*, 3rd edition, Ronald Fisher, 2006, South-Western College Pub (ISBN: 0324291558).[‡]

[†]I am not sure if this book has an international edition. If it does, the international edition may have a different ISBN Code.

[‡]I am not sure if this book has an international edition. If it does, the international edition may have a different ISBN Code.