

Public Finance
Department of Public Finance
National Chengchi University

Course #: 000221011

Terms: Fall, 2023 and Spring, 2024 (112-1 and 112-2)

Instructor: Joe CHEN, Department of Public Finance, joe@nccu.edu.tw

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

Rm #: 270415, Gen. Building of Colleges

Office Hours: 12:30–14:00, Monday; Rm #: 270943, S. Wing, Gen. Building of Colleges

TA: TBA

TA Session and 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 associated effects of various government expenditures on economic incentives and on the distribution of income, wealth, and/or consumption are the focus of expenditure-side studies.
 - On the revenue side, government financing can be achieved by taxes, debts (government borrowing), asset sales, earnings made by public enterprises, seigniorage, and/or other means. How a government chooses to finance its activities *must have* effects on the distribution of income, wealth, and/or consumption, and on the effi-

ciency of markets. The main theme of this course on the revenue side is taxation. 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.
- Notice that *none* of the rationales (neither any combination of them)—efficiency, equity, or ethical arguments—is a sufficient reason for government intervention because 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”. And therefore, the problem is far more complicated. Take market failure for example. We will have to ask the following questions:
 - What are the factors contributed to the failure of the market?
 - Can the market fix itself with minimum involvement from the government?
 - What are ways that the government may get involved in the failed market?
 - What are the effects of different policy measures?

None of these questions have quick answers.

- The existence of "double failures" highlightens the importance of studying public finance. The understanding of the theories and practices of public finance is absolutely essential in a modern democratic society as a public affairs decision maker or an advisor, or for just being a concerned citizen.

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. In the past, I have been using the celebrated public finance textbook by Harvey S. Rosen and Ted Gayer (see References Section). Nevertheless, as good as a good public finance textbook it is, Rosen and Gayer (2014) is somewhat "outdated"; some tables and charts are no longer "timely and relevant". After contacting the publisher for revision information, I was told that there are no plan whatsoever with respect to updating Rosen and Gayer (2014). Therefore, I made the decision to switch to the textbook by David N Hyman, *Public Finance: A Contemporary Application of Theory to Policy*, 12/E, 2021 (ISBN: 978-0357442159) from Fall Semester, 2021. *You are strongly recommended to get a copy of this book.*
- 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. I will also ask you to dig out the comparison numbers as part of the homework.
- 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://www4.nccu.edu.tw/~joe/index.html>.

Course Requirements

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 (20%): 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”.
- Other (5%): By behaving responsibly, you will receive full credits from this part. I may take credits away individually based on my perception of your being irresponsible to your duty as an enrolled student of this course.
- Attendance: This course is intensive and demanding. Without attending the class, it is difficult to keep up with the pace and to learn the materials all by yourself. I strongly recommend you to attend each lecture ON TIME!
- TA sessions: It took a lot of effort to add a TA session to this course. I cannot overemphasize the importance of attending weekly TA meetings, in particular, to those of you who are aiming at getting great scores at the end of the semester.

Course Outline

Tentatively, the plan is to use the first semester—112-1—to cover the expenditure side of the government. The following chapters in the assigned textbook will be covered:

- i. Introduction: Chapters 1 and 2
- ii. Theories of the Expenditure Side
 - (a) Externalities (Chapter 3)
 - (b) Public Goods (Chapter 4)
 - (c) Political Economy (Chapter 5)
 - (d) Cost-Benefit Analysis (Chapter 6)
- iii. Applications of the Expenditure Side
 - (a) Income Redistribution and Expenditure Programs for the Poors (Chapter 7)
 - (b) Social Security and Social Insurance (Chapter 8)
 - (c) The Health Care Market (Chapter 9)
- iv Guided self-directed learning

The Second semester—112-2—mainly deals with the revenue side of the government. The following chapters in the assigned textbook will be covered:

- v. Introduction: Chapter 10
- vi. A Framework for Tax Analysis
 - (a) Taxation, Prices, and Efficiency (Chapter 11)
 - (b) Incidence and Income Distribution (Chapter 11)
 - (c) Budget Balance and Government Debt (Chapter 12)
- vii. The Revenue System
 - (a) The Theory of Income Taxation (Chapters 13 and 14)
 - (b) The Taxation of Corporate Income (Chapter 15)
 - (c) Taxes on Consumption and Sales (Chapter 16)
 - (d) Taxes on Wealth, Property, and Estates (Chapter 17)
- viii. Multi-governmental (State and Local) Public Finance (Chapter 18)
- ix. Guided self-directed learning

Class Calendar

- A week-by-week schedule of the first semester (Fall, 2023; 112-1) maybe announced at the first class meeting of the semester.
- A Week-by-week schedule of the second semester (Spring, 2024; 112-2) maybe announced at the first class meeting of the semester.

References

- *Public Finance*, John E. Anderson, 2011, 2nd edition, South-Western College Pub; (ISBN: 0538478446).*
- *Public Finance*, Laurence S. Seidman, 2009, McGraw Hill Higher Education (ISBN: 0071276300).
- *State and Local Public Finance*, 3rd edition, Ronald Fisher, 2007, South-Western College Pub (ISBN: 0324291558).†
- *A Course in Public Economics*, John Leach, 2004, Cambridge University Press (ISBN: 0521535670).
- *Public Finance*, 10th edition, Harvey S. Rosen and Ted Gayer, International Edition 2014, McGraw-Hill (ISBN: 978-0-0771-5469-1).
- *Economics of the Public Sector*, 3rd edition, Joseph E. Stiglitz, 2000, W.W. Norton & Co. (ISBN: 0393966518).

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

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