

Nazarbayev University
School of Humanities and Social Sciences
Department of Economics
ECON 545–Public Finance
Fall 2016

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Required Reading: *Public Finance* by Harvey S. Rosen and Ted Gayer, 10th Global Edition

ECON 511 students are also required to read, present, and extend papers, presented in the required readings section of this syllabus. (See page 6.)

Course Description

This course will provide you with a thorough introduction to public finance, as well as expose you to the most important papers in this field. The two central themes of this course are public expenditures and taxation. By the end of the course, you should be able to analyze, critique, and propose amendments to government's fiscal policy. We will touch upon the topics of measuring the impact of government regulations, look at such specific markets as education and health care, as well as discuss social security and public welfare.

Outcomes and Grade Determination

- **Class participation (30%):** Each student starts with 30% for class participation. As the course progresses, depending on the performance of the student he or she will either preserve the entire 30% participation credit or lose some of it. Class participation—which excludes attendance (see below)—will be based on your activity during the class, which combined will count for 30% of the total course grade. You are encouraged to ask questions, participate in class discussions, as well as take active part in group/panel activities. *I want to stress that participation credit will not be awarded to you automatically as it may be the case in some courses.*

To be able to participate in class discussions effectively, it is critical that you read ahead and are able to discuss the material that I will cover during the lectures, as well as papers that will be presented by graduate students. Reading ahead will enable you to not only answer my questions, ask meaningful questions yourselves, and earn participation credit, but also improve your grade substantially. I recommend to stay two chapters ahead of what we are covering in class. Use the course schedule at the end of this syllabus as your reading guide.

To ensure that students read ahead, I will form discussion panel during each class. Given excellent performance on the panel, a student will not lose any points. A student will lose

2% points, if I see evidence that the student has no or poor command of the required reading. Just skimming the text is not going to cut it and because skimming is not how one should learn, skimmers will lose 2%.

- **Homework (30%):** Each student must choose and present one of the papers below in the first half of the semester (15% of the grade). In the second half, each graduate student must present paper extension (15% of the grade).
- **Exams (40%):** There will be one midterm and one final exam, each counting for 20% of the total course grade. Both exams are a mix of mathematical, conceptual (essay), and true-false questions. Just like homework assignments, exams will target testing genuine understanding of the material, rather than your ability to regurgitate what you have read in the textbook and papers.
 - During exams, you are allowed to make use of non-programmable calculators, pens, pencils, erasers, rulers, and two sheets of notes (handwritten by you). You can also bring in water bottles to the exam.
- **Extra credit assignments (0%):** There will be no extra credit assignments in this course.
- **Grading Scale:**

Grade	Percentage
A	95-100
A-	90-94
B+	85-89
B	80-84
B-	75-79
C+	70-74
C	65-69
C-	60-64
D	55-59
D	50-54
F	0-49

EXPECTATIONS – STUDENTS

Assignments

You are expected to submit homework and other assignments on time. Late submissions will not be accepted without a university recognized excuse and my approval *prior* to the due date. There are no provisions for make-up homework. If you miss a homework altogether and have a university recognized excuse, your final-exam score will be applied to the missed homework to make up for the points missed.

Examinations

I expect you to take exams on the scheduled day. If you miss an exam for a legitimate reason, I will give a make-up exam, but only if you make arrangements with me *prior* to the day of the exam.

Academic Dishonesty

Academic dishonesty will not be tolerated in this course, and violators will be found and disciplined in accordance with Nazarbayev University regulations. Academic dishonesty includes copying the work of any author and passing it off as your own, copying the work of another student and turning it in as your own work, allowing another student to copy your work, giving or receiving assistance without authorization on an examination, using unauthorized electronic devices or other material during exams, and freeriding on group assignments. Academic dishonesty can result in a permanent failing grade for this course, a permanent notice of academic dishonesty in your student citizenship file, and suspension from Nazarbayev University.

I reserve the right to take any measures during the midterm and final exams (including videotaping the exams), as well as throughout the course to prevent and punish academic dishonesty.

Attendance Policy

Attendance is mandatory. If you miss a lecture, it is your responsibility to catch up by asking other students for notes, announcements, and handouts.

Attendance policy also includes the following:

- The first unexcused absence will be punished at 2% of the course grade.
 - The penalty will increase by 1% point for each additional absence up to 5%. The penalty at the end of the course will be applied to all retrospective absences. So, if you missed three lectures, the highest grade that you can earn in this course will be 88%.
- The first count of tardiness will be punished at 1% of the course grade.
 - The penalty will increase by 1% for each additional count of tardiness up to 5%.
 - You will have 20 seconds grace period starting from the beginning of the class.
- If you need to attend to a close family member who is seriously ill, your grade will not be reduced. The same applies for a death of a family member. In the latter case, you need to provide me with a copy of the death certificate.

Classroom Decorum

The student has obligations as well as rights in the classroom. Your obligations in the classroom include acting in a mature manner conducive to enhancing the learning atmosphere. A simple guideline to live by here is simply not to exhibit disruptive behavior in the classroom. Do not use offensive language, call people disparaging names, or belittle any person in this course. Every person in this class is expected to show respect for the professor and for everyone else.

Cell phones, laptops, beepers and any device that may disrupt lectures must be turned off before the start of lectures and remain outside of your immediate reach for the duration of the class.

- Each violation of this policy will be punished at 0.5% of the course grade.

EXPECTATIONS – INSTRUCTOR

Outside-Office-Hours E-mail/Phone/Office Visit Policy

Email me and I will set up an appointment with you. I usually check my e-mail once in the morning and once around noon on weekdays, but not reliably on weekends. I will refuse to address your questions or issues, if you simply show up at my office uninvited. In addition to teaching this course I have other responsibilities and I expect you to let me focus on those. In general, I much prefer talking with you in person to interacting via e-mail, especially when it comes to questions about the course material.

- Make sure to send me an email before coming to my office hours with exact time you would like to see me, as well as the topic of our discussion.
- Please, do not come to my office without an email confirmation from me.

Student with disabilities

If you have a physical, learning, or psychological disability and require accommodations, please, let me know as soon as possible.

Disclaimer

This syllabus will most definitely change as I adapt course policies to ensure better educational outcomes. You are responsible for staying up to date regarding the content of the syllabus, which will be updated via emails. Careful reading of my emails is one of your course responsibilities.

Readings

1. Meyer, B. (1995). "Natural and Quasi-Experiments in Economics." *Journal of Business and Economic Statistics* 13, 151-161.
2. Cowell, F. A. and Schokkaert, E. (2001), "Risk Perceptions and Distributional Judgments", *European Economic Review*, 42, 941-952.¹
3. Kim, A. (2014), A Theory of Group Goods by Anton Kim, working paper.
4. Morgan, J. (2000), "Financing Public Goods by Means of Lotteries", *Review of Economic Studies*, 67, 761-784., 2012.²
5. Benabou, R. and E. Ok (2001) "Social mobility and the demand for redistribution: The POUM hypothesis," *Quarterly Journal of Economics* 116, 447-87.³
6. Chetty, R. and Finkelstein, A. (2013). "Social Insurance: Connecting Theory to Data," Chapter 3 in *Handbook of Public Economics*, Vol 5.
7. Coady, D. and Drèze, J. (2002), "Commodity taxation and social welfare: the generalized Ramsey rule", *International Tax and Public Finance*, 9, 295-316.
8. Kaplow, L. (2006) "On the Undesirability of Commodity Taxation Even When Income Taxation is Not Optimal," *Journal of Public Economics*, 90, 1235-1250.
9. Cowell, F.A. (2012) "Bequests, taxation and the distribution of income and wealth," *Review of Public Economics*, 200, 75-93
10. Kleven, H., and E. Schultz (2014). "Estimating Taxable Income Responses using Danish Tax Reforms." *American Economic Journal: Economic Policy* 6(4), 271-301.
11. Saez, E. (2001). "Using Elasticities to Derive Optimal Income Tax Rates." *Review of Economics Studies* 68, 205-229.
12. Kleven, H. (2014). "How Can Scandinavians Tax So Much?" *Journal of Economic Perspectives* 28(4), Fall 2014, 77-98.
13. Edlin, A. and P. Karaca-Mandic (2006). "The Accident Externality from Driving," *Journal of Political Economy* 114(5), 2006.
14. *⁴ Kleven, H., C. Kreiner, and E. Saez (2015). "Why Can Modern Governments Tax So Much? An Agency Model of Firms as Fiscal Intermediaries," forthcoming *Economica*, 2016.
15. * Kleven, H. (2014). "How Can Scandinavians Tax So Much?" *Journal of Economic Perspectives* 28(4), Fall 2014, 77-98.
16. * Kleven, H., and E. Schultz (2014). "Estimating Taxable Income Responses using Danish Tax Reforms." *American Economic Journal: Economic Policy* 6(4), 271-301.
17. * Eissa, N. (1995). "Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment." NBER Working Paper No. 5023.
18. * Eissa, N. and J. Liebman (1996). "Labor Supply Response to the Earned Income Tax Credit." *Quarterly Journal of Economics* 61, 605-37.
19. * Kleven, H. (2014). "How Can Scandinavians Tax So Much?" *Journal of Economic Perspectives* 28(4), Fall 2014, 77-98.

¹ [http://darp.lse.ac.uk/papersdb/Cowell-Schokkaert_\(EER_01\).pdf](http://darp.lse.ac.uk/papersdb/Cowell-Schokkaert_(EER_01).pdf)

² <http://www.jstor.org/stable/2695947>

³ [http://darp.lse.ac.uk/papersdb/Benabou-Ok_\(QJE01\).pdf](http://darp.lse.ac.uk/papersdb/Benabou-Ok_(QJE01).pdf)

⁴ Stars (*) mark optional readings.

Tentative Course Schedule

Lecture	Topics	Required Readings
Lecture 1	Syllabus Explained; Initial Remarks	
Lecture 2	Syllabus Quiz	
Lecture 3	Philosophy of Government Spending	Ch. 1, Paper 1
Lecture 4	Tools of Positive Analysis	Ch. 2
Lecture 5	Tools of Normative Analysis	Ch. 3, Paper 2
Lecture 6	Public Goods	Ch. 4
Lecture 7	Group Goods	Paper 3
Lecture 8	Externalities	Ch. 5
Lecture 9	Political Economy I (Arrow Impossibility Theorem)	Ch. 6, Paper 4
Lecture 10	Political Economy II (Majoritarian v Representative systems)	Handout
Lecture 11	Education	Ch. 7, Paper 5
Lecture 12	Cost-Benefit Analysis	Ch. 8
Lecture 13	Health Care I	Ch. 9, Paper 6
Lecture 14	Health Care II	Ch. 10
Midterm Exam		
Lecture 15	Social Security	Ch. 11, Paper 7
Lecture 16	Income Inequality I	
Lecture 17	Income Inequality II	Ch. 12, Paper 8
Catch up day	[Catch up or review]	Ch. 13
Lecture 18	Taxation I: Income Distribution	Ch. 14, Paper 9
Lecture 19	Taxation II: Efficiency	Ch. 15
Lecture 20	Taxation III: Efficiency v Equity	Ch. 16, Paper 10
Break		
Lecture 21	Taxation IV: Personal Income Tax	Ch. 17, Paper 11
Lecture 22	Taxation V: Behavioral Considerations	Ch. 18
Lecture 23	Taxation VI: Corporate Tax	Ch. 19, Paper 12
Lecture 24	Taxation VII: Deficit Finance	Ch. 20
Lecture 25	Taxation VIII: Tax Reform	Ch. 21, Paper 13
Lecture 26	Public Finance in Federal System	Ch. 22
Catch up day	[Catch up or review]	
Final Exam		