



ECONOMICS 404
Fall 2018
HAL 112
TR: 1:00-2:15PM

ECON 404: Public Finance

“Have you ever heard anyone say: ‘Taxes are the best investment. They are a life-giving dew.’?”
~Frederic Bastiat

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TR: 2:30-4:30pm
Or by appointment

This syllabus is a contract between myself and you. I will work hard to uphold the guidelines outlined here and expect you to do the same. That said, I reserve the right to make changes if necessary.

REQUIRED TEXTS

Holcombe, Randall. 2006. *Public Sector Economics: The Role of Government in the American Economy*. Pearson.

Rothbard, Murray. 2006. *Power and Market, 4th edition*. Ludwig von Mises Institute. (Available for free online).

Selected readings

PREREQUISITES

ECON 101 or ECON 102. Knowledge of “Principles” level economics will be assumed.

COURSE DESCRIPTION

This course explores the activities of the public sector from an economic perspective. An incredibly broad topic in the history of economic thought, you can think of our course as an introduction to some of the seminal questions regarding the workings, origins, and the consequences (both intended and unintended) of how the state’s activities are financed.

These questions include: Where did states come from in the first place? What are the justifications for states intervening in voluntary exchange? Can we thank government for innovation? Is it possible to determine whether government activity makes anyone better off? Do democratic states really behave any differently than autocratic ones? Are taxes, debt, and inflation interchangeable

means of financing the state? Is the national debt really a big deal if we just “owe it to ourselves”? And why do many economists argue that the state should tax insulin, but not yachts?

Throughout the course, we will explore a *variety* of perspectives on these and many other questions. To that end, I have assigned two textbooks. Holcombe’s text offers a relatively conventional treatment of these issues; Rothbard’s text offers an alternative analysis of the same questions. Your task is to compare the approaches, note their similarities and differences, and finally to conclude which you find more satisfactory.

LEARNING OUTCOMES:

This course is intended to equip students to:

1. Describe the history of economic thought pertaining to welfare and efficiency. This will be assessed by the midterm exam, pop quizzes, final exam, a final paper and accompanying presentation. [1,4,]
2. Identify the effects of alternative governmental systems (democracy and autocracy) on the economic system. This will be assessed by a midterm exam, pop quizzes, a final exam, a final paper and accompanying presentation. [2,3,4,5]
3. Analyze alternative means of government finance: taxation, debt, and inflation. This will be assessed by pop quizzes, a final exam, a final paper and accompanying presentation. [1,2,4,5]
4. Analyze the consequences of alternative tax types: excise, income, property, tariffs, etc... This will be assessed by pop quizzes, a final exam, a final paper and accompanying presentation. [2,3,4,5]
5. Analyze the consequences of government spending for the market economy. This will be assessed by pop quizzes, a final exam, a final paper and accompanying presentation. [2,3,4,5]

TENTATIVE SCHEDULE OF TOPICS, ASSIGNMENTS, AND EXAMS

<u>DATE</u>	<u>TOPIC</u>	<u>READING</u>
Aug 28	Introduction	Bastiat: “Taxes” and “Public Works” in <i>Selected Essays in Political Economy</i> PSE: 4-16 de Jasay: “Your Dog Owns Your House” (optional and fun!)
Aug 30	The Economic Approach	Taylor: “Social Cooperation and Resource Allocation” (pp. 12-21) in <i>An Introduction to Austrian Economics</i> Mises: “Interference by Taxation” (pp. 730-735) in <i>Human Action</i>
Sept 4	Welfare and Efficiency	P&M: 311-319 PSE: 25-40
Sept 6	Market Failure	PSE: 52-53; 55-56; 68-73; 75-78; 80-83
Sept 11	The State: Origins and Types	Carneiro: “A Theory of the Origin of the State” (available on mygcc)
Sept 13	The State: Defense	PSE: 90-94; 102-104; 460-467 P&M: 1-10 Leeson, Coyne, and Duncan: “A Note on the Market Provision of National Defense” (optional)
Sept 18	The State: Law and Order PAPER + PRESENTATION TOPIC APPROVAL	PSE: 108-111 Leeson and Coyne: “Wisdom, Alterability, and Social Rules”
Sept 20	Innovation Policy	P&M: 87-92 Boldrin and Levine: “How Competition Works” in <i>Against Intellectual Monopoly</i>
Sept 25	Autocracy	Kurrild-Klitgaard: “The Paradox of Rebellion”
Sept 27	Bureaucracy	PSE: 188-192 Mises: <i>Bureaucracy</i> (pp. 40-57)
Oct 2	Democracy	P&M: 19-21; PSE: 131-137; 141-145

		Rothbard: "Buchanan and Tullock's <i>The Calculus of Consent</i>," in <i>Economic Controversies</i> (pp. 927-932)
Oct 4	Democracy	Caplan: "The Myth of the Rational Voter: Why Democracies Choose Bad Policies" Leeson: "Do We Need Behavioral Economics to Explain Law?" (optional)
Oct 9	MIDTERM EXAM	Study
Oct 11	Taxation: Principles	P&M: 168-198 PSE: 224-232
Oct 16	Taxation: Principles	P&M: 103-109; 198-206 PSE: 218-220
Oct 18	FALL BREAK	
Oct 23	Taxation: Transactions	PSE: 202-210; 234-236; 243-246
Oct 25	Taxation: Transactions	P&M: 110-118; 134-137
Oct 30	Taxation: Income	P&M: 118-125 PSE: 269-278
Nov 1	Taxation: Business and Property	P&M: 125-134; 139-144 PSE: 308-320; 322-324
Nov 6	Taxation: Imports	P&M: 55-61 PSE: 251-255 Yandle: "My Trade Deficit with Grocery Stores and the Local Laundry" (optional)
Nov 8	Debt	White and Garrison: "Do Deficits Matter?" Buchanan: "The Ricardian Approach" in <i>Public Principles of Public Debt</i>
Nov 13	Inflation	Rothbard: "Myth # 1" in <i>Ten Great Economic Myths</i> Buchanan and Wagner: 1. "Money-Financed Budget Deficits," 2. "Inflation: Anticipated and Unanticipated," and 3. "Why Worry about Inflation?," in <i>Democracy in Deficit</i>
Nov 15	Government Spending: Subsidies	P&M: 207-212 PSE: 352-357

Nov 20	THANKSGIVING BREAK	
Nov 22	THANKSGIVING BREAK	
Nov 27	Government Spending: Services	P&M: 213-226 PSE: 360-365; 468-471
Nov 29	Healthcare	PSE: 442-456 Feigenbaum: “‘Body Shop’ Economics: What’s Good for our Cars May be Good for our Health”
Dec 4	Education	PSE: 427-433 Tooley: “The Question,” (pp. 11-16) and “The Secret History of Education without the State” (pp. 31-48) in <i>Education without the State</i>
Dec 6	PRESENTATIONS	
Dec 11	PRESENTATIONS	
Dec 13	STUDY DAY	Study
Dec 14	FINAL EXAM—7-9PM	Study

This is a tentative schedule. If it proves to ambitious, I will attempt to say less about each topic, rather than cutting topics entirely.

COURSE REQUIREMENTS, EVALUATION, GRADING

Final grades are based on one (1) midterm exam, one (1) paper, one (1) presentation, five (5) pop quizzes, and one (1) comprehensive final exam.

Economists emphasize that the “rules of the game” shape outcomes. One of the rules in this class is that there will be 5 pop quizzes administered at the beginning of class on that day’s assigned reading. If you have an excused absence on a quiz day, the weight of that quiz will be added to the next quiz. **Unexcused absences on quiz days will earn a zero on the quiz.**

Whether you enter the workforce or continue your education after graduation, collaboration with others is likely to play an increasingly significant role in your success. As a result, students will be co-authoring papers in groups of two in this class. These groups will then present their paper in class at the end of the semester. I will provide guidelines about both the paper and the presentation in class (additionally, general paper-writing tips are provided below and grading rubrics are available on the course myGCC page).

A representative from each group is required to meet with me by the date listed in the syllabus to discuss the group’s paper and presentation topic. When we meet, you should be prepared to offer me a thesis statement. Simply stop by during my office hours. A hard-copy, stapled version of the final paper is due on the date you make your presentation (There will be a sign-up sheet in class).

The ability to meet deadlines is a skill that is required in virtually every potential opportunity after you graduate. **As a result, (unexcused) late papers will receive a grade of zero.**

The final grade is calculated as follows:

- (1) Midterm exam: 30%
- (1) Paper + Presentation: 25% (Paper: 15%; Presentation: 10%)
- (1) Comprehensive final: 35%
- (5) Pop quizzes: 10% (2% each)

Grading Scale:

A: 93-100 **A-:** 90-92.9 **B+:** 87-89.9 **B:** 83-86.9 **B-:** 80-82.9 **C+:** 77-79.9
C: 73-76.9 **C-:** 70-72.9 **D+:** 67-69.9 **D:** 63-66.9 **D-:** 60-62.9 **F:** <60

There will be no make-up exams. If a you must miss an exam, please discuss it with me prior to the exam. In the event of an emergency, you should email me as soon as possible. If you miss an exam and I have not accepted your excuse, a grade of “0” will be given. If the absence is excused, the weight of that exam will be added to the final exam.

The final exam must be taken at the scheduled time. One exception: students who have three or more finals scheduled for the same day may discuss with me an alternative time to take the final.

There will be no make-up assignments. All assignments must be hard-copy and stapled; they are due at the beginning of class.

IN-CLASS EXPECTATIONS

The use of phones and laptops is prohibited in class. I did not make this decision lightly. Many elite institutions, including law schools, have chosen to ban electronics from the classroom on the same grounds that I do so: studies have repeatedly demonstrated that laptop usage exerts a statistically significant, negative effect on classroom outcomes. For example, a recent study of Principles of Economics classes at West Point found that when laptops were banned, students scored, on average, .18 standard deviations higher than their peers in laptop-using classrooms.¹ Several studies also demonstrate that taking notes by hand is, on average, superior for learning and retention than is taking notes by electronic device.² However, the strongest argument for a laptop ban comes from recent studies indicating that laptop usage harms the performance of non-laptop-using students in a laptop-using classroom.³ When someone’s activity imposes costs on someone else, economists call it a “negative externality.” My policy of banning electronics is an attempt to mitigate negative externalities in the classroom.

PUBLIC FINANCE PAPER GUIDELINES

Students will complete an 8-10 page, co-authored paper analyzing a topic in Public Finance. The best papers will contain cogent analysis free of grammatical problems and conveyed in a style appropriate to scholarly (rather than casual) discourse. Papers should be double-spaced, with one-inch margins and 12-point Times New Roman font. You may include a title page, but do not

¹ See here: <http://educationnext.org/should-professors-ban-laptops-classroom-computer-use-affects-student-learning-study/>.

² See here: <https://www.scientificamerican.com/article/a-learning-secret-don-t-take-notes-with-a-laptop/> or here: <https://sites.udel.edu/victorp/files/2010/11/Psychological-Science-2014-Mueller-0956797614524581-1u0h0yu.pdf>.

³ See here: <http://www.sciencedirect.com/science/article/pii/S0360131512002254?via%3Dihub>.

include it in your page count. **Your citations should adhere to the Chicago Style Author-Date format.** You may find examples here: <https://owl.english.purdue.edu/owl/>

Below I list a wide-range of broad, possible paper topics with associated links to spark your creativity, but you are also free to select a relevant topic of your own:

1. Is there a distinctly Austrian approach to [welfare economics](#)?
2. Is innovation possible in the absence of [intellectual property laws](#)?
3. Where did the state [come from](#)?
4. Can the market provide [national defense](#)?
5. Does “[entrepreneurship policy](#)” boost growth?
6. Is the state “entrepreneurial,” as argued by [Mariana Mazucatto](#)?
7. Why do democracies get [bad policies](#)?
8. What are the unintended consequences of [sin taxes](#)?
9. Did Rothbard get it right when it came to [tax incidence](#)?
10. What are the differences between taxes, debt, and [inflation](#)?
11. How does war financing alter the incentive to [wage war](#)?
12. Does Ricardian Equivalence hold when the government [incurs debt](#)?
13. Does government aid in [natural disaster relief](#)?
14. Why are government services routinely offered below the [equilibrium price](#)?
15. Is inequality the Achilles Heel of [private education](#)?

All papers should possess the following structure: 1) Introduction concluding with a precise thesis; 2) Points of argumentation supporting the thesis; 3) Conclusion stating the implications of your argument. The opening pages of your paper should contain a strong, unambiguous thesis that clearly states the argument you are trying to advance. **The rest of your paper should be written as if you were trying to convince an opponent who currently believes contrary to your thesis.**

A thesis is a proposition that you defend by way of argumentation. Thus, statements like “This paper is about Ricardian Equivalence” are not thesis statements. A thesis is something like “Contrary to the arguments of those adhering to perfect Ricardian Equivalence, the burden of government debt falls, at least partially, on future generations.” Excise every thought that does not contribute to your thesis. Unfocused thoughts do not simply fail to help you make your case; they positively detract from it.

Good writing is almost always difficult to achieve. It takes a lot of practice. As economist D. McCloskey states: “Amateur writers suppose that writing is a character trait instead of a skill.”⁴ Because good writing is a skill, you should re-read (and re-write) your paper. Read it aloud. Ask a roommate to critique your prose and argumentation. Though the process is painful, good writing is paramount to thinking well. Writing down our thoughts enables us to spot errors of reasoning, sloppy prose, gaps in the argument, *non-sequiturs*, and other intellectual sins. As a former professor of mine likes to say: “Thinking without writing is daydreaming.”

In my opinion, the best economics papers *begin* with a question. They *end* with an answer to that question *and* with implications that stem from the analysis. Regardless of which approach you choose, your paper should include a brief literature review. What have others said on this topic or

⁴ From Deirdre N. McCloskey’s (2000) “Economical Writing,” (Second edition).

related topics? How does your paper fit in this broader conversation and advance scholarly discourse?

COLLEGE REGULATIONS

This course complies with the Attendance Expectations and Academic Integrity policies of the College as described in the Grove City College Bulletin. Attendance at all classes for which a student is registered is essential to the satisfactory completion of the course. If an absence is incurred for any reason, it is the obligation of the student to ascertain from the instructor what is to be done to maintain his/her standing in the course.

A student may have unexcused absences which total less than or equal to the number of times the class meets per week. In other words, classes meeting four times per week allow four unexcused absences; three times per week allow three unexcused absences, etc. Absences are excused for authorized GCC activities, loss of immediate family member, and Zerbe-certified illness or injury. Please consult the College Bulletin (pgs. 53-54) for more details on college attendance policy.

Academic Integrity: The GCC community maintains strict standards for academic integrity and honesty. By signing their application form, all GCC students have pledged themselves to academic integrity. Please consult the College Bulletin (pgs. 55-57) for what constitutes academic dishonesty and plagiarism.

In doing papers or assignments outside of the classroom, taking exams and quizzes, and preparing for exams and quizzes, students should do their own work and not cooperate with, aid, or encourage other students to violate this policy. Consult the College Bulletin for more details on what constitutes a violation of college policy.

In addition, by vote of the GCC faculty, a student who violates, or who assists another to violate, the Honesty in Learning Policy shall be penalized with a minimum of a failing grade for the specific work for which the dishonesty was committed. More severe penalties may be imposed by faculty including failure in the course. For the processes through which incidents are handled consult the College Bulletin.

Accessibility & Accommodations: If you anticipate physical or academic barriers based on a disability, please let me know immediately so that we may discuss options. You may also contact the disability services office to establish accommodations. The Disability Services Coordinator may be reached at (724)-264-4673 or disabilityservices@gcc.edu.