

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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OFFICE HOURS: M/W/F: 8-10am, T/TR: 8-9am. NOTE: Due to Covid-19, all office hours will be held remotely through Teams. Please send me an email to schedule a virtual visit.

This syllabus is a contract between us. Both parties should work hard to uphold the guidelines outlined here. 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 as a free PDF [online](#).

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, the content of our course is sometimes also referred to as “public economics.” The first part of our course focuses on the origins of, justifications for, and types of the state. The second part examines the consequences, both intended and unintended, of alternative means of financing state activity.

The questions we will examine include: Where did states come from in the first place? What are the justifications for states intervening in voluntary exchange? Does democracy give the people what they want? 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 26	Thinking Like an Economist	Holcombe: 4-6 Boettke and Leeson: "Presumptions in Political Economy" (on mygcc) Shapiro: "Scarcity and Individual Choice" (pp. 81-87; 94-95)
Sept 2	Perspectives on Welfare Economics	Holcombe: 26-38; 52-56; 68-75; 80-85 Rothbard: 311-319 Rothbard: "Toward a Reconstruction of Utility and Welfare Economics" (optional)
Sept 9	The State: Origins, Growth, Public Goods	Carneiro: "A Theory of the Origin of the State" (available on mygcc) Holcombe: 90-106

		<p>Olson: “Dictatorship, Democracy, and Development” (optional)</p> <p>Powell and Coyne: “Do Pessimistic Assumptions about Human Nature Justify Government?” (optional)</p>
Sept 16	<p>The State: Defense, Law</p> <p>PAPER + PRESENTATION TOPIC APPROVAL</p>	<p>Holcombe: 108-111</p> <p>Leeson: “Government, Clubs, and Constitutions”</p> <p>Leeson and Coyne: “Wisdom, Alterability and Social Rules”</p> <p>Rothbard: 1-10 (optional)</p>
Sept 23	<p>Democracy</p>	<p>Holcombe: 131-137; 141-145; 155-163; 166-170; 193-195; 476-479</p> <p>Caplan: “The Myth of the Rational Voter: Why Democracies Choose Bad Policies” (pp. 2-15)</p> <p>Rothbard: 23-28</p> <p>Leeson: “Do we Need Behavioral Economics to Explain Law?” (optional)</p> <p>Boudreaux: “Was Your High School Civics Teacher Right after All?” (optional)</p>
Sept 30	<p>Bureaucracy, Autocracy</p>	<p>Holcombe: 187-192</p> <p>Mises: <i>Bureaucracy</i> (pp. 40-57)</p> <p>Kurrild-Klitgaard: “The Paradox of Rebellion” (pp. 403-405)</p>
Oct 7	<p>MIDTERM EXAM</p> <p>Researching, Writing, and Presenting Economic Research</p>	<p>Cochrane: “Writing Tips”</p> <p>Savage and Yeh: “Novelist Cormac McCarthy’s Tips on How to Write a Great Science Paper”</p>

		Herrendorf: “How to Make Academic Presentations”
Oct 14	Taxation: Principles Presentations	Rothbard: 168-206; 105-118 Holcombe: 218-220
Oct 21	Taxation: Transactions Presentations	Holcombe: 202-211; 243-246; 256-258; 261-266; 234-236; 251-254 Nesbit: “Excise Taxation and Product Quality Substitution” (pp. 143-150; 159-163) Rothbard: 55-61
Oct 28	Taxation: Personal Income, Business Income, Property Presentations	Holcombe: 270-272; 278-282; 302-303; 327-328; 308-311; 313-314; 317-320 Rothbard: 139; 144-150; 125-134; 139-144; 150-168 Djankov et al.: “The Effect of Corporate Taxes on Investment and Entrepreneurship” (pp. 31-33; 40-42; 47-59) Ross: “Store Wars: The Chain Tax Movement”
Nov 4	Debt and Seigniorage Presentations	White and Garrison: “Do Deficits Matter?” Buchanan and Wagner: “Money-Financed Budget Deficits,” “Inflation: Anticipated and Unanticipated,” and “Why Worry about Inflation?”
Nov 11	Spending: Subsidies, Services Presentations	Rothbard: 207-233 Holcombe: 375-376; 407-421; 247-251; 468-470
Nov 18	Spending: Healthcare and Education Presentations	Holcombe: 85-88; 427-439; 442-450 Tooley: “The Secret History of Education without the State” (pp. 31-48)

Nov 25	THANKSGIVING BREAK	
Dec 2	FINAL EXAM—6:30-8:30PM	

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 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 welfare economics a [dead end](#)?
2. Where did the state [come from](#)?
3. Can the market provide [national defense](#) against other [states](#)?
4. Is "[state capacity](#)" really the key to growth?
5. Does "[entrepreneurship policy](#)" boost growth?
6. Why do democracies get [bad policies](#)?
7. Are autocratic leaders just as constrained as their [democratic counterparts](#)?
8. Do [constitutions](#) bind [Leviathan's hands](#)?
9. Does [political competition](#) mimic market competition? When does the [Curley Effect](#) dominate?
10. What are the unintended consequences of [sin taxes](#)?
11. Did Rothbard get it right when it came to [tax incidence](#)?
12. What are the differences between taxes, debt, and [inflation](#)?

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>.

13. How does war financing alter the incentive to [wage war](#)?
14. Who bears the burden of [public debt](#)? Do we “[owe it to ourselves](#)”?
15. What type of [austerity](#) “[works](#)”?
16. Why do some countries rely more heavily on [seigniorage](#)?
17. Is the public indifferent between [taxes and debt](#)?
18. Does government aid in [natural disaster relief](#)?
19. Why are government services frequently offered below the [equilibrium price](#)?
20. How were the poor provided for before the [welfare state](#)?

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 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.

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

Academic Integrity:

Preamble

Grove City College is deeply invested in upholding academic integrity and honesty. Three of the college's five core values, faithfulness, excellence, and community, directly relate to academic integrity because any violation of academic integrity is a form of theft and deceit that affects the one stolen from, as well as the community of students and faculty at the college. In addition, cheating is a violation of three of the Ten Commandments: the prohibitions against stealing, lying, and coveting. However, as the Ten Commandments and the totality of Scripture demonstrate to us, we are fallen creatures who at times do what we ought not do.

Accordingly, the college has created a policy both to define what cheating is and to describe our process for dealing with allegations of cheating in order to discourage cheating and provide an opportunity for meaningful repentance and restoration when students do cheat.

Pledge

As a student of Grove City College, I pledge to do my work faithfully with honesty in accordance with my calling as a student working for Christ's glory.

Cheating and Plagiarism may be present in many areas, including (but not limited to) the following:

1. **Doing Papers, Outside Work.** Work done out of class, which a student submits as his/her own work to a professor, should be his/her own and should not contain that which has been obtained from another, other than properly credited references, sources, and citations.
2. **Taking Exams, Tests, Quizzes.** Work done on a test, exam, or quiz, which a student submits to a professor, should be his/her own and should not contain that which has been knowingly obtained from another. By default, no resources are permitted unless explicitly allowed by the instructor.
3. **Preparing for Exams.** A student should not seek to gain an advantage on an exam he/she is about to take by obtaining advanced access to particular questions or advance copies of a professor's exam, or by giving access to other students. This includes access to exams from prior semesters.
4. **Group Work.** In courses where group work or teamwork is allowed, the members of the group may collaborate and share resources among themselves, but not with other groups or prior and subsequent classes.
5. A student should not cooperate with, aid, or encourage another student's violation of the above rules, even though he or she receives no direct benefit. Any student who does so is also guilty of cheating, and can have their grade from current or past semesters (if relevant) reduced.
6. **Instructor-Imposed Limitations.** Faculty may add (via syllabus, assignment instructions, or verbal instructions) additional rules and limitations pertaining to cheating in their particular discipline, class, and assignment.

Special Note: Plagiarism includes

1. Any direct quotation of another's words, from simple phrasing to longer passages, without using quotation marks and properly citing the source of those words.
2. Any summary or paraphrase of another's ideas without properly citing the source of those ideas.
3. Any information that is not common knowledge—including facts, statistics, graphics, drawings—without proper citation of sources.
4. Any cutting and pasting of verbal or graphic materials from another source and representing as one's own work—including books, databases, web sites, journals, newspapers, etc.—without the proper citation for each of the sources of those materials; this includes any copyrighted artwork, graphics, or photography downloaded from the Internet without proper citation.
5. Any wholesale “borrowing,” theft, or purchasing of another's work and presenting it as one's own, whether from the Internet or from another source.
6. Any presentation of “ghost-written” work including—whether paid for or not—as one's own original work, including papers, computer code, visual artwork, and other forms of written and non-written work.
7. Making one's work available for copying by others, as well as copying work posted on the Internet or otherwise made available by another.
8. Self-citation: you cannot submit the same work for two different classes. If you use part of an earlier work, or ideas from an earlier work, you should reference it, as with any other source.

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.

Covid-19 Pandemic: Grove City College is closely monitoring the COVID-19 outbreak, and we are committed to maintaining a safe and healthy campus community. In order to care for each other, you are required to wear a face mask (or officially sanctioned face shield) in all academic buildings including in all classrooms, labs, studios, hallways, and restrooms. Additionally:

Students and faculty should maintain social distancing (minimum 6' distance) to the extent possible during class.

Students should arrive no earlier than 5 minutes before class to reduce contact between students during class change periods.

Students showing any symptoms related to COVID-19 (outlined in the Campus Health and Safety Plan) must not attend class. Instead, they should report their condition through the College's COVID-19 portal, work closely with the College's medical staff, and not return to class in person until approved by the Zerbe Health Center. During this time, every effort will be made to provide remote learning opportunities.

Office hours may be held virtually, and if faculty voluntarily elect to hold face-to-face office hours, both students and faculty should wear a face mask.