

Public Finance: Expenditure
Economics 3328A-001
Department of Economics
Western University
Fall 2016

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Class times and locations

Section 001 M: 12:30-1:30 pm; W: 12:30-2:30 pm in TC 341

Registration

You are responsible for ensuring you are registered in the correct courses. If you are not registered in this course, the Department will not release your marks until your registration is corrected. You may check your timetable by using the Login on the Student Services website at <https://studentservices.uwo.ca/secure/index.cfm>. If you notice a problem, please contact your faculty academic counsellor right away.

Prerequisite note

The prerequisite for this course is **Economics 2261A/B**. The antirequisite for this course is **Economics 2159A/B**. You are responsible for ensuring that you have successfully completed all course requisites, and that you have not taken an anti-requisite course. Lack of prerequisites may not be used as a basis for appeal. If you are found to be ineligible for a course, you may be removed from it at any time and you will receive no adjustment to your fees. This decision cannot be appealed. If you find that you do not have the course prerequisites, it is in your best interest to drop the course well before the end of the add/drop period. Your prompt attention to this matter will not only help protect your academic record, but will ensure that spaces become available for students who require the course in question for graduation.

Please note that Part Four of this course (see below) will use tools from the Honours Econometrics sequence, **Economics 2222 and 2223**. Therefore, although these courses are not strictly prerequisites, I strongly advise students to have taken this sequence. Please let me know if you have not taken this sequence, as you will have to work harder to master the readings in Part Four; I will make sure I am available to work with you to get through the material.

Course overview

This course studies the role of government in the provision of goods and services from theoretical and empirical perspectives.

Learning outcomes

After this course, students should be able to: explain economic concepts and theories related to basic welfare economics and the role of government in addressing the provision of public goods and externalities; explain, from an economic perspective, theoretical aspects of governments' involvement with education and health care; and explain empirical issues that arise when assessing the government's role in the provision of education and health care.

Course text

The main textbook for the theory portion of the course (Parts One-Three; see below):

Rosen, Harvey, Jean-Francois Wen, and Tracy Snoddon, Public Finance in Canada, 5th Canadian Edition, McGraw-Hill Ryerson

Note that we will work with a combination of the main text and academic papers for Part Four of the course.

Main text options:

1. The textbook is available at the bookstore.
2. An ebook is also available at the bookstore or online.
3. The 4th Canadian Edition of the textbook, which you may be able to find used for a cheaper price, is a close substitute for the 5th Canadian Edition.
4. There are several copies of the textbook (4th and 5th Canadian Editions) on reserve at the Weldon Library.

There is another textbook, which covers the theoretical material at a more rigorous level:

Feldman, Allan M. Welfare Economics and Social Choice Theory, 2002, Kluwer Academic Publishers

This book is available as an ebook through the Weldon Library (<http://alpha.lib.uwo.ca/record=b4472282-S20>) and has also been placed on reserve at the Weldon Library.

Course outline

This is a tentative outline of our course, with book chapter references in parentheses. The outline may be adjusted based on our progress. Please note that material in lectures may not be in the textbook but may still appear on exams.

1. Part One: Introduction

- Ch. 1: Introduction to Public Finance in Canada
- Ch. 2: Fundamentals of Welfare Economics

2. Part Two: A Framework for the Analysis of Public Expenditure

- Ch. 4: Public Goods
- Ch. 5: Externalities
- Ch. 6: Income Redistribution

3. Part Three: Political Economy

- Ch. 7: Public Choice
- Ch. 8: Fiscal Federalism

4. Part Four: Public Expenditures

- Basics of empirical research
- Chetty and Finkelstein [2012]
- Ch. 13: Education and Education Reform
 - General:
 - * Hanushek [1979]
 - * Hanushek [2003]
 - School Choice:
 - * Hoxby [2000]
 - * Cullen et al. [2006]
 - Teacher Incentives:
 - * Muralidharan and Sundararaman [2011]
 - * Duflo et al. [2011]
 - * Imberman and Lovenheim [2015]
- Ch. 9: Health Care
 - Health Care: Theory:
 - * Akerlof [1970]
 - * Rothschild and Stiglitz [1976]
 - * Arrow [1963]
 - * Pauly [1968]
 - * Pauly [1974]
 - Health Care: Empirical:
 - * Levy and Meltzer [2008]
 - * Finkelstein [2007]
 - * Finkelstein and McKnight [2008]
 - * Manning et al. [1987]
 - * Abbring et al. [2003]

Grading

There will be one cumulative **midterm exam**, held in class on October 19, and a cumulative **final exam**, date to be determined.

We will discuss several readings in Part Four of the course. Participation in these discussions has positive externalities. To ensure that you've completed these readings before we discuss them in class, I will collect and grade brief (approximately 100 words) **article summaries** online, before the beginning of the class during which we will discuss each article to be graded. This will be done for four of the readings, which will be designated in lecture the class before; the lowest article summary grade will be dropped.

There will be one **assignment**, where you can submit your choice of an op-ed or article critique. Detailed instructions will follow later on in the semester (October 24). Late assignments are forfeited; an assignment is considered late if it has not been physically turned in either to me or the box outside my office by 5pm on the day it is due.

The course grade will be computed using the following weights:

Participation:	5%
Article summaries:	5%
Assignment (Op-ed or Article Critique):	15%
Midterm exam:	25%
Final exam:	50%

The midterm exam is cumulative. There will be no make-up midterm exams. In case of lack of justification for missing the midterm, a grade of zero will be attributed to the exam.

You may submit an exam for a regrade within one week of when it has been handed back in class. I may scrutinize the entire exam during the regrade; this means your grade may go up, go down, or stay the same.

Electronic Devices

The only electronic device you may use during exams is a non-graphing, non-programmable calculator. Graphing/programmable calculators, cell phones, etc. must be kept in your bag. If you have any of these devices out during an exam it will be taken from you and will only be returned once you have turned-in the exam.

Important dates:

9/12:	1st day of class
9/14:	Class cancelled
10/19:	In-class Midterm
10/24:	Assignment instructions given in class
11/5:	Drop day
11/23:	Assignment due
12/7:	Last day of class
TBD:	Final exam

Statement on Mental Health: If you or someone you know is experiencing distress, there are several resources here at Western to assist you. Please visit <http://www.uwo.ca/uwocom/mentalhealth/> for more information on these resources and on mental health.

References

- J.H. Abbring, P.A. Chiappori, and J. Piquet. Moral hazard and dynamic insurance data. *Journal of the European Economic Association*, 1(4):767–820, 2003.
- George A Akerlof. The market for “lemons”: Quality uncertainty and the market mechanism. *The Quarterly Journal of Economics*, 84(3):488–500, 1970.
- K.J. Arrow. Uncertainty and the welfare economics of medical care. *The American Economic Review*, 53(5):941–973, 1963.
- Raj Chetty and Amy Finkelstein. Program report: The changing focus of public economics research, 1980-2010. *NBER Reporter Online*, 1(1), 2012. URL <http://www.nber.org/reporter/2012number1/>.
- J. B. Cullen, B. A. Jacob, and S. Levitt. The effect of school choice on participants: Evidence from randomized lotteries. *Econometrica*, 74(5):1191–1230, 2006.
- Esther Duflo, Pascaline Dupas, and Michael Kremer. Peer effects, teacher incentives, and the impact of tracking: Evidence from a randomized evaluation in kenya. *American Economic Review*, 101:1739–1774, 2011.
- Amy Finkelstein. The aggregate effects of health insurance: Evidence from the introduction of medicare. *The Quarterly Journal of Economics*, pages 1–37, 2007.
- Amy Finkelstein and Robin McKnight. What did medicare do? the initial impact of medicare on mortality and out of pocket medical spending. *Journal of Public Economics*, 92(7):1644–1668, 2008.
- E.A. Hanushek. The failure of input-based schooling policies. *The Economic Journal*, 113(485):F64–F98, 2003. ISSN 1468-0297.
- Eric A. Hanushek. Conceptual and empirical issues in the estimation of educational production functions. *Journal of Human Resources*, pages 351–388, 1979.
- Caroline M Hoxby. Does competition among public schools benefit students and taxpayers? *The American Economic Review*, 90(5):1209–1238, 2000.
- Scott A Imberman and Michael F Lovenheim. Incentive strength and teacher productivity: Evidence from a group-based teacher incentive pay system. *Review of Economics and Statistics*, 97(2):364–386, 2015.
- Helen Levy and David Meltzer. The impact of health insurance on health. *Annual Review of Public Health*, 29:399–409, 2008.
- Willard G Manning, Joseph P Newhouse, Naihua Duan, Emmett B Keeler, and Arleen Leibowitz. Health insurance and the demand for medical care: evidence from a randomized experiment. *The American Economic Review*, pages 251–277, 1987.
- Karthik Muralidharan and Venkatesh Sundararaman. Teacher performance pay: Experimental evidence from india. *Journal of Political Economy*, 119(1):39–77, 2011.
- Mark V Pauly. The economics of moral hazard: Comment. *The American Economic Review*, 58(3):531–537, 1968.
- Mark V Pauly. Overinsurance and public provision of insurance: The roles of moral hazard and adverse selection. *The Quarterly Journal of Economics*, pages 44–62, 1974.
- M. Rothschild and J. Stiglitz. Equilibrium in competitive insurance markets: An essay on the economics of imperfect information. *The Quarterly Journal of Economics*, pages 629–649, 1976.

Please Note
Department Policies for 2016 – 2017

Remember that the University expects all students to take responsibility for their own academic Programs. Also remember to check your registration to make sure you are enrolled in the correct courses.

1. Guidelines and policies for the Faculty of Social Science and the Department of Economics are posted online in the current Western Academic Calendar at <http://westerncalendar.uwo.ca>.
2. Students must familiarize themselves with the “Rules of Conduct for Examinations” <http://westerncalendar.uwo.ca/2016/pg136.html>.
3. **Cheating as an academic offence:** Students are responsible for understanding what it means to “cheat”. The Department of Economics treats cheating incidents very seriously and will investigate any suspect behavior. Students found guilty will incur penalties that could include a failing grade or being barred from future registration in other economics courses or programs. The University may impose further penalties such as a notation on your official academic transcript, suspension or expulsion.
4. **Plagiarism:** Students must write their essays and assignments in their own words. Whenever students take an idea or a passage from another author, they must acknowledge it by using quotation marks where appropriate and referencing with footnotes or citations. Plagiarism is a major academic offence (see Scholastic Offence Policy in the current UWO Academic Calendar at <http://westerncalendar.uwo.ca/2016/pg113.html>).

The University of Western Ontario uses software to check for plagiarism and students may be required to submit their written work in electronic form. Those found guilty will have penalties imposed as noted in point 3.

5. It is Department of Economics policy that **NO** assignments be dated, stamped or accepted by staff. Students are responsible for submitting assignments in class or to the instructor during office hours.
6. When appealing a mark, students should refer to the University’s Procedures in the current UWO Academic Calendar (<http://westerncalendar.uwo.ca/2016/pg112.html>). Please note the relevant deadlines.

The Department will not consider any appeal unless an attempt has been made to settle the matter first with your instructor. If after this discussion you remain dissatisfied with a grade or other decision, you may proceed with a written appeal (e-mails are not acceptable) to the Undergraduate Director in Economics, stating the reasons for your appeal. A useful form and checklist is provided at (http://economics.uwo.ca/undergraduate/program_counselling/responsibilities_policies.html#appeals).

7. Systematic adjustments of a class grade distribution (either up or down) can occur in Economics courses. The fact that grades have been adjusted is **not** grounds for an appeal.

8. Note the following add and drop deadlines:

Last day to **add** a first term half course:
Friday, September 16th, 2016

Last day to **drop** first term half course without academic penalty:
Monday, November 7th, 2016

9. Faculty of Social Science policy states that oversleeping or misreading an exam schedule is not an excuse for a make-up. This rule applies to all mid-term tests and final exams in the Department of Economics.

Policy Regarding Makeup Tests and Final Examinations

*Academic accommodation will **not** be granted automatically on request. You **must** demonstrate by documentation that there are **compelling** medical or compassionate grounds before academic accommodation will be considered.*

If you decide to write a test or an examination, you must be prepared to accept the mark you earn. Rewriting tests or examinations, or having the value of the test or examination reweighted on a retroactive basis, is **not** permitted. Book airline flights after you know the dates of your final examinations. Airline flights must not conflict with test or final exams.

If you are requesting a makeup test for a midterm or a final examination, unless medically incapable, notify your instructor by email or phone, preferably prior to the scheduled date of the test, but definitely within **24 hours** of the date of the test or exam. Failure to follow this procedure may result in denial of a request for academic accommodation or result in a grade of zero. Set up an appointment as soon as possible to meet personally with your instructor. If the instructor is not available, you may send an email message, copying the Undergraduate Coordinator at econugrd@uwo.ca (Social Science Room 4075). **Notifying your instructor of a missed test or exam does not automatically entitle you to a makeup test.**

Students who seek a makeup test or examination must provide medical or other relevant verification that their absence from a regularly scheduled test or examination is beyond their control. Documentation must support your reasons. Medical documentation should be given to the Academic Counselling Office of your *home* Faculty **as soon as possible (preferably within 24 hours of the test)** if you know you may not be able to write your final examination on the scheduled day and time. Failure to follow this procedure, or to provide supporting documentation, may result in denial of a request for academic accommodation or result in a grade of zero. If your documentation is not acceptable, you will be given a zero for the missed test.

For personal illness, if you consult Student Health Services regarding your illness or personal problem, you should request a Student Medical Certificate from the physician. If you were seen by an off-campus doctor, obtain a certificate from his/her office at the time of your visit. The off-campus medical certificate form must be used and can be found at: http://www.uwo.ca/univsec/pdf/academic_policies/appeals/medicalform.pdf. Notes stating "For Medical Reasons" are not considered sufficient.

For any other circumstances, if you are not sure what documentation to provide, ask your Academic Counsellor. If your documentation is judged sufficient, the Academic Counsellor will issue a Recommendation for a Special Examination (a single form for midterms or a triple color form for final examinations). Once you have this form, contact your instructor as soon as possible to make arrangements. Even if approved from your home faculty Academic Counsellor, there is no guarantee that you will be allowed to write the makeup test and exam.

For final examinations, you need permission from your *home* Faculty Counsellor, your instructor, and the Department Undergraduate Director. Failure to follow this procedure may result in an examination grade of zero. You must ensure that the Special Examination form has been signed by the instructor and Department Undergraduate Director and that the form is returned to the Academic Counselling Office for approval without delay. Make-up final examinations, if permitted, will be written within one month of the end of the exam period.

Policies Regarding Academic Accommodation

Information about the Faculty of Social Science's policies regarding academic accommodation is found on its website at <http://counselling.ssc.uwo.ca/procedures/havingproblems.asp> or in Social Science Room 2105. Your "Academic Rights and Responsibilities" are also outlined in the current UWO Calendar at <http://westerncalendar.uwo.ca/2016/pg111.html>. Claiming that "you didn't know what to do" is not an acceptable excuse for not following the stated procedures.

Policy Regarding Class Attendance

If your instructor views your class attendance as unsatisfactory, you can be prohibited from writing the final examination. If there is intent to make use of this University policy, you will be notified in writing.

Statement on Mental Health and Support Services

If you or someone you know is experiencing emotional/mental distress, there are several resources here at Western to assist you. Please visit <http://www.uwo.ca/uwocom/mentalhealth/> for more information and a complete list of resources, as well as how to obtain help.