## Class details

Public Economics (ECON-UA 9353)

Fall 2012, time and date TBD

Location to be confirmed.

## Instructor Details

Mike Tae

miketae@gmail.com

M: 703-989-8725

I will not have scheduled office hours, but will make myself available weekday evenings. Please arrange an appointment with me either in person or phone/email.

## Prerequisites

N/A

## Class Description

This course examines the role of the public sector in the economy. The aim of the course is to provide an understanding of the reasons for government intervention in the economy, the extent of that intervention, how government actions affect the economy including the response of private agents to these actions, and how the government finances its operations through taxation.

The course will be a combination of lecture, discussion and special meetings with outside participants, such as the U.S. Department of Treasury, the Environmental Protection Agency, and the Federal Housing Finance Agency, all who play a role in finance and policy response in Washington, DC.

## Desired Outcomes

By the end of the semester, students will have accomplished the following:

1) Learned the two fundamental theorems of welfare economics and why markets may fail;

2) Learned about the general theory of externalities, public goods, and asymmetric information;

3) Learned about the economic impact of various policies including welfare programs, Social
Security, Medicare, and Medicaid;

4) Learned tax and policy incidence analysis;

5) Learned the principles of optimal policy design.

**Assessment Components**

Course grades will be based on the following:

* Three take-home assignments, each representing 15% of semester grade. The take-home assignments will be a policy memo (2-3 pages) that pertains to a specific topic discussed in class.
* One final exam, represents 40% of semester grade.
* Attendance and class participation, represents 15% of semester grade

Failure to submit or fulfill any required course component results in failure of the class.

**Assessment Expectations**

**Grade A:** The student makes excellent use of empirical and theoretical material and offers well-structured arguments in his/her work. The student writes comprehensive essays/exam questions and his/her work shows strong evidence of critical thought and extensive reading.

**Grade B:** The candidate shows a good understanding of the problem and has demonstrated the ability to formulate and execute a coherent research strategy.

**Grade C:** The work is acceptable and shows a basic grasp of the research problem. However, the work fails to organize findings coherently and is in need of improvement.

**Grade D:** The work passes because some relevant points are made. However, there may be a problem of poor definition, lack of critical awareness, poor research.

**Grade F:** The work shows that the research problem is not understood; there is little or no critical awareness and the research is clearly negligible.

**NYU Washington, DC grade conversion**

NYU Washington, DC uses the following scale of numerical equivalents to letter grades:

<table>
<thead>
<tr>
<th>Numerical Value</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>100-94</td>
<td>A</td>
</tr>
<tr>
<td>93-90</td>
<td>A-</td>
</tr>
<tr>
<td>89-87</td>
<td>B+</td>
</tr>
<tr>
<td>86-84</td>
<td>B</td>
</tr>
<tr>
<td>83-80</td>
<td>B-</td>
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<tr>
<td>79-77</td>
<td>C+</td>
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<tr>
<td>76-74</td>
<td>C</td>
</tr>
<tr>
<td>73-70</td>
<td>C-</td>
</tr>
<tr>
<td>69-67</td>
<td>D+</td>
</tr>
<tr>
<td>65-66</td>
<td>D</td>
</tr>
<tr>
<td>below 65</td>
<td>F</td>
</tr>
</tbody>
</table>

**Attendance Policy**

NYU Washington, DC has a strict policy about course attendance. **No unexcused absences are permitted.** All medical-based absence requests MUST be presented by the student to the Program Manager for Student Life (Candice Clawson) before or during the class that is missed. Candice can help arrange doctor’s appointments. In case of a longer-lasting illness, medical documentation must be provided. **All non-medical absence requests must be presented by the student to the Program Manager for Academic Affairs (Lauren Sinclair).** Non-medical requests should be made in advance of the intended absence.
Unexcused absences will be penalized by deducting 3% from the student’s final course mark. Unexcused absences from exams are not permitted and will result in failure of the exam. If you are granted an excused absence from examination (with authorization, as above), your instructor will decide how you will make up the assessment component, if at all (by make-up examination, extra coursework, or an increased weighting on an alternate assessment component, etc.).

NYU Washington, DC expects students to arrive to class promptly (both at the beginning and after any breaks), to be attentive, and to remain for the duration of the class. If full class attendance becomes a problem, it is the prerogative of each instructor to deduct from the final grade for late arrival and early departure. Being more than 10 minutes late counts as an unexcused absence.

Please note that for classes involving a field trip or other external visit, transportation difficulties are never grounds for an excused absence. It is the student’s responsibility to arrive at the announced meeting point in a punctual and timely fashion. Staff members may always be reached by cell phone for advice regarding public transportation.

Late Submission of Work

1. Written work due in class must be submitted during the class time to the professor.

2. Late work should be submitted in person to the instructor or to the Program Manager for Academic Affairs (Lauren Sinclair), who will write on the essay or other work the date and time of submission, in the presence of the student. Work cannot be left for Lauren under the door or on her desk, in her absence. If Lauren is not in her office, another member of the administrative staff can accept the work and write the date and time of submission on the work, again only in the physical presence of the student.

3. Work submitted within 5 weekdays after the submission time without an agreed extension receives a penalty of 10 points on the 100 point scale.

4. Without an approved extension, written work submitted more than 5 weekdays following the session date fails and is given a zero.

5. Please note: end of semester essays must be submitted on time.

6. If for whatever reason you feel you cannot submit any written work in time, you should discuss this with Lauren.

7. Students who are late for a written exam have no automatic right to take extra time or to write the exam on another day.

Students with Disabilities

Academic accommodations are available for students with documented disabilities. Please contact the Moses Center for Students with Disabilities at 212-998-4980 or see their website (http://www.nyu.edu/life/safety-health-andwellness/students-with-disabilities.html) for further information.
The presentation of another person’s words, ideas, judgment, images or data as though they were your own, whether intentionally or unintentionally, constitutes an act of plagiarism.

NYU Washington, DC takes plagiarism very seriously; penalties follow and may exceed those set out by your home school. All your written work must be submitted as a hard copy AND in electronic form to the instructor. Your instructor may ask you to sign a declaration of authorship form.

It is also an offense to submit work for assignments from two different courses that is substantially the same (be it oral presentations or written work). If there is an overlap of the subject of your assignment with one that you produced for another course (either in the current or any previous semester), you MUST inform your professor.

For guidelines on academic honesty, clarification of the definition of plagiarism, examples of procedures and sanctions, and resources to support proper citation, please see:

http://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/academic-integrity-for-students-at-nyu.html
http://gls.nyu.edu/page/gls.academicintegrity
http://cas.nyu.edu/page/academicintegrity

Required Text(s)

Supplemental Text(s) (not required for purchase)
Jean Hindriks and Gareth D. Myles, Intermediate Public Economics
John Leach, A Course in Public Economics.
Robin W. Boadway and Neil Bruce, Welfare Economics.
Bernard Salanie, Microeconomics of Market Failures.
Walter Nicholson, Microeconomic Theory: Basic Principles and Extensions

* Please note that I will also be assigning topical news articles and research publications to supplement the readings from the textbook. I will be distributing through the course of the semester.

Internet Research Guidelines
When utilizing sources from the internet, please cite appropriately and whenever possible, reference specific documents (rather than home or menu pages) and provide an address that works.

Additional Required Equipment
None

Session 1, 2
Introduction to Public Economics
• Definition and scope of public economics
• Positive and normative analysis
• A brief history of public spending
• Overview of budget, levels of government, international comparisons, the government budget constraint, long-run economic prospects of the public sector.

Reading: Gruber Ch 1, 3 and 4

Special Session: Senior official (TBD) from the U.S. Department of the Treasury who works in the Office of Debt Management, to present on the debt limit crisis the country faced during the summer of 2011, and the interaction between the White House/Treasury and Congress.

Session 3
General Equilibrium and Welfare Economics

• Cardinal, ordinal, and intercomparable utility
• Utility possibility sets, social welfare functions, social planner’s problem, Pareto optimality, social welfare functions
• Consumer utility maximization and demand functions
• Market utility maximization and price determination
• Firm profit maximization and supply functions
• Consumer and producer surplus.
• First and Second Fundamental Theorems of Welfare Economics
• Planned versus market economies. Pigou and Hayek.
• Taxonomy of market failures

Reading: Gruber, Ch 2 (including Appendix)

Session 4
Imperfect Competition and Increasing Returns

• Marginal-cost pricing
• Minimum efficient scale and natural monopoly
• Rent-seeking

Session 5, 6
Externalities and Public Goods

• Positive and negative externality, private versus external social costs and benefits
• The Coase Theorem, hold-up and assignment problems
• Corrective Pigouvian taxation
• Quantity and price regulation, tradable permits, economics of climate change.
• Pure and impure public goods, Samuelson’s Rule, vertical addition of demand curves
• Nash equilibrium, best response function, free-rider problem, coordination failure, market failure
• Charitable giving and crowd out
Special Session: Senior official (TBD) from the EPA to discuss negative externalities and how policy decisions are made from an environmental perspective.

Session 7: Cost-benefit Analysis
- Hicks-Kaldor Compensation Principle/Test
- Present-discounted value; private and social discount rates
- Stated preference and contingent valuation
- Revealed preference; hedonic methods, and compensating differentials
- Shadow prices
- The value time, safety, human life, and cleaner air.

Session 8: Social Choice and Political Economy
- Majority voting, Condorcet’s Paradox
- Arrow’s Impossibility Theorem
- Median voter theorem, Electoral competition, Citizen-candidate model

Session 9: Local Public Economies and Public Provision of Private goods
- Advantages and disadvantages of federalism.
- Club goods and optimal club size
- Residential sorting and Tiebout equilibrium, benefit taxation, capitalization
- Mandated benefits
- Intergovernmental grants (e.g. matching, block), flypaper effect
- School finance, school choice and vouchers, private and social return to education.

Session 10, 11: Social Insurance, Adverse Selection and Moral Hazard
- Budgets and decision making under uncertainty and over time, expected utility model
- Consumption smoothing, risk aversion, actuarially fair insurance
- Asymmetric information, adverse selection, moral hazard
- Pooling and separating equilibria
- Overlapping generations, intergenerational equity
- Social Security reforms, universal health insurance.
**Special Session:** Senior official (TBD) from the Federal Housing Finance Agency, the regulatory body of the GSEs to discuss moral hazard as it relates to the housing sector and its contributing factor to the broader financial crisis in 2007.

**Session 12**

**Tax Incidence and Optimal Taxation**

- Nominal versus real incidence.
- Deadweight burden of taxation
- Taxes on labor and income and substitution effects
- Average and marginal tax rates, progressive and regressive taxation.
- Vertical and horizontal equity.
- Inverse-elasticity rule, production efficiency, equity-efficiency tradeoff
- Welfare programs “Iron Law” of welfare, means-testing, ordeal mechanisms
- Consequences of flat-tax reform

Reading: Gruber Ch 17, 18, 19, 20, 21, 22.

**Session 13**

Final exam (in class)

**Classroom Etiquette**

N/A

**Required Co-curricular Activities**

We will be meeting with people in DC who can provide real-life applications of public policy and finance. These meetings will provide unique perspective to the texts that we will be reading and discussing, and are mandatory.

**Suggested Co-curricular Activities**

N/A

**Your Instructor**

Mike is currently a Senior Vice President at Millstein & Co, a financial services firm that provides advisory services to clients facing complex corporate and public finance issues. He was most recently a Senior Policy Advisor at the Financial Stability Oversight Council at the U.S. Department of the Treasury. At Treasury, he also served as the Director of Investments for TARP, where he helped execute and oversee emergency financial programs that were implemented during the financial crisis. Mike was previously a Vice President in investment banking at Merrill Lynch's Financial Institutions Group. Mike also worked at McKinsey & Co as a consultant for several years and prior to that, researched development economics in Korea as a Fulbright Scholar. He has an MBA from Columbia Business School and a BA from Williams College.