

**Economics 231 – Government Expenditures and Revenues**  
Fall 2019

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Overview: This course is one of several courses in the field of public economics, which studies the role of government in the economy. The formal requirement for the field is to complete any two of the courses that are offered. If you intend to do research in the field, though, then broader training will be valuable.

This course will include analyses of government expenditure programs and tax systems. The emphasis will be on learning frameworks and techniques that can be applied to produce original research in the field of public economics. The topic that will be the focus of the first half of the course is public goods. We will start by characterizing optimal provision and justifying government intervention. We will then move on to study a variety of complications that arise when provision decisions are made in practice, including political inefficiencies and interactions across multiple jurisdictions and levels of government. The second half will begin by surveying past theoretical work assessing the efficiency and equity effects of any given tax structure in a rather abstract setting, and then examine in more depth the economic effects of existing tax provisions. There will be separate sections on the personal income tax, the corporate tax, and taxes in developing countries.

Requirements: There are five sets of requirements for this course:

1. Readings

The required readings are primarily academic journal articles and are available to you on the course website. In addition to the required readings, which are starred and viewed to be essential, additional readings are posted as sources for further exploration in areas of specific interest to you.

2. Referee report

We will assign a paper for you to referee. The referee report should briefly summarize the paper (one paragraph), provide an overview of your most salient concerns (one paragraph), and then provide detailed critiques and suggestions (which can be organized in numbered bullets). It should be 2-3 single-spaced pages in length. The report will count for 20% of your grade.

The assigned paper will be one that will be presented by an outside speaker in the applied microeconomics seminar, so that you will have the opportunity to compile your reactions prior to the seminar. We encourage you to attend as many applied microeconomics (and other field) seminars as you can. The applied microeconomics seminar meets on Mondays from 2:00-3:30pm in Economics 300. Attending seminars is among the best ways to facilitate

the transition from coursework to research.

### 3. Research proposal

You are in graduate school to learn to do research in economics, and the best way to learn to do research is to do it! This proposal should be 10-15 double-spaced pages in length and provide a detailed outline of a topic that has the potential to be a chapter in your dissertation. The topic does not need to be directly related to the public economics topics covered this quarter but should be a topic relevant to the field. You should get far enough on the topic that you know how to proceed to complete the project. An example would be a critique of a current weakness in the past literature on a topic, a proposal for how to address this weakness, and an initial layout of the theory (if it will be a theoretical paper) or a proposed empirical specification that can be estimated given available data sets (without doing the estimation). An initial draft of the proposal is due week 7 (Tuesday, November 12) and the final version is due week 10 (Friday, December 6). We will ask you to meet with one of us (and other faculty as appropriate) as you develop and refine your proposal, in the weeks before and after the drafts are due. We realize that some of you are also taking the third-year research course and, by university rules, you cannot use the same project for both classes. For this reason and so that you have more options as you build your research portfolio, we encourage you to explore an entirely different topic for this class. The proposal will count for 40% of your grade.

### 4. Problem sets

Practice problem sets along with suggested solutions will be posted on the course website. While these problem sets will not be graded, we strongly urge you to work through the problems before looking at the answers. Working through the problem sets will help give you a better understanding of the applied theoretical tools and will also be valuable preparation for the final exam.

### 5. Final exam

There will be a final cumulative exam administered during final exam week that is worth 40% of your grade.

### Course outline:

1. Public goods provision
2. Political economy of government
3. Local public goods
4. Fiscal federalism
5. Optimal taxation
6. Personal income tax and labor supply
7. Personal income tax and household savings
8. Personal income tax and reported taxable income
9. Corporate income taxes
10. Taxation in developing countries