George Mason University  
Schar School of Policy and Government  
PUBP 741: U.S. Financial Policy, Processes, and Procedures

“The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing.”

-Jean Baptiste Colbert, finance minister under Louis XIV

Instructor: Sita Nataraj Slavov  
Office: Founders Hall Room 542  
Phone: 703-993-3171  
E-mail: sslavov@gmu.edu  
Office hours: Wednesdays 6-7pm

Overview: This course focuses on public finance, a field of economics that is concerned with the role the government plays in the economy through taxes and spending programs. There is much disagreement on the appropriate role of government in the economy. While public finance does not provide a definitive answer to this question, it does provide a framework for thinking about it. It gives us tools to assess when government intervention in the economy is warranted, as well as how specific tax and spending policies affect individual incentives, economic performance, and the distribution of income. We will cover a number of tools and concepts that are useful in public finance, drawing on economic theory, cost-benefit analysis, statistics, political economy, and budget analysis. We will use these tools to gain insight into specific topics in public finance including public goods and externalities, social insurance, health care, income redistribution, and taxation.

Learning Outcomes:  
Knowledge and Understanding  
- To understand how to evaluate market outcomes and determine when government intervention is needed.
- To understand the problems that can arise in the presence of externalities and public goods, and to evaluate policy alternatives designed to address these problems.
- To understand various possible rationales for social insurance, the features of the major social insurance programs, the impact of social insurance programs on the economy, and the key current policy issues surrounding these programs.
- To understand various possible rationales for income redistribution and a social safety net, the features of the main welfare programs, the impact of these programs on individual incentives and outcomes, and the key current policy issues surrounding these programs.
- To understand the various policy options for raising revenue, the main features of the current tax code, the impact of taxes on individual behavior and economic performance, and the main proposals for fundamental tax reform.
- To understand the incentives faced by policy makers and politicians, and to learn how resources are allocated through voting and the political process.
Skills and Abilities
- To be able to apply economic reasoning to explain the effects of different tax and spending policies.
- To be able to interpret data that can provide insight into policy questions in public finance.
- To be able to read, summarize, and discuss academic research in public finance, and bring it to bear on current policy issues.

Prerequisite: PUBP 720 or permission of instructor. I strongly discourage taking this course without sufficient background in economics and math. I will assume knowledge of topics covered in PUBP 720 and the Schar School math camp (PUBP 555), which is a prerequisite for PUBP 720. This means I will expect you to be able to work with percentages and fractions, interpret graphs, manipulate algebraic expressions, and graph and solve equations (including systems of equations). I will also expect you to have a working knowledge of consumer theory (including budget constraints and utility maximization), producer theory (including production functions, cost curves, and profit maximization under both perfect and imperfect competition), the supply and demand model, and welfare analysis (i.e., evaluating outcomes according to economic efficiency and distributional impact).

Communication: Please check the course page on Blackboard regularly, as this is where I will post important announcements and assignments. I also send out important information via email to your Mason email address. If you do not check your Mason email regularly, please arrange to have it forwarded to an account that you do check regularly.

Textbook and Reading Assignments: The textbooks for the course are as follows:


Additional readings are either linked in the detailed schedule below or posted on Blackboard.

Grading: Your grade for the course will be determined as follows:
- Midterm: 30%
- Final Exam: 40%
- Policy Memo: 10%
- Problem Sets: 10%
- Presentation: 5%
- Worksheets: 5%

Exams: There will be one midterm held in class on October 11. The final exam will take place on ???. Both exams are closed-book and closed-notes, though you may use a calculator. Exams may cover any material from lectures, discussion, problem sets, worksheets, or the Gruber textbook. The final is cumulative. If you do better on the final than you did on the midterm, your final grade will replace your midterm grade. If you miss the midterm for any reason (including illness or travel), your final grade will replace your midterm grade. Technically, this means that you are allowed to skip the midterm and let it all ride on the final. However, I do
not recommend this strategy as it exposes you to unnecessary risk. Taking the midterm can never hurt your grade, and it may even help.

**Policy Memo:** You will be asked to write a 2-4 page policy memo addressing a public finance policy question of your choice. Additional details will be provided later. Memos are to be written in groups of 3 or 4 students (randomly assigned by me). Your memo grade will have two components: a score for the overall memo quality (all group members receive the same score) and a score based on your group members’ evaluations of your individual contribution to the memo. Your group must submit a memo topic (via Blackboard) by **October 19 at noon**. Failure to meet the topic deadline will lower your each group member’s memo grade by five percentage points (e.g., 85% to 80%). The final draft of the memo is due on **December 8 at noon**. Memos must be submitted via Blackboard. Late memos will not be accepted. Also by **December 8 at noon**, you must submit evaluations of your own and your group members’ contributions to the memo. Failure to submit these evaluations will lower your individual memo grade by five percentage points.

**Problem Sets:** You will be assigned six problem sets. Due dates for these problem sets are listed under “Important Dates” below. Each problem set has two parts. The multiple choice part is to be completed on Blackboard. You will be allowed three attempts on the multiple choice part, and your highest score will be recorded. The short answer part must be uploaded to Blackboard. On the short answer part, I will pick one problem at random and grade it primarily based on effort. Please note that if the problem I choose to grade is missing or illegible, you will receive a zero for the short answer part of the problem set. To avoid this outcome, please make a good faith effort to solve all problems and check to make sure all pages/problems are present and legible. Detailed solutions to each problem set will be posted immediately after the deadline. Each of the 12 problem set parts (6 problem sets x 2 parts each) counts equally towards your overall problem set grade. Late problem sets (even a few minutes late) will receive no credit, but I will drop the lowest three out of the 12 parts.

**Presentation:** Your group will do a 10-minute class presentation on your policy memo. Presentations will take place on **November 29** in class. You will also be expected to provide other groups with written and verbal feedback on their presentations. Providing written feedback to other students count as the worksheet for the day (see below).

**Worksheets:** Over the semester, I will ask you to complete a number of short in-class worksheets. You will be allowed to use your notes and work with each other on the worksheets. Worksheets must be completed and submitted in class only. Some of the worksheets may also involve participating in economics experiments in which you play the role of producers or consumers interacting through markets. I will collect these worksheets and grade them on a credit/no-credit basis (i.e., you will receive either a 0 or 1). If you make a good faith effort to do the worksheet, you will get credit. If you miss class on a day when we do a worksheet, you will receive no credit for the worksheet. However, at the end of the semester, I will drop your three lowest worksheet grades.

**Late work:** As you will note from the above policies, I provide you with flexibility by dropping your lowest problem set and worksheet grade(s). This flexibility is intended to cover illness, personal emergencies, travel, adding the class late, family obligations, crunch time at work, scanner or printer problems, illegible or missing pages, computer crashes, car problems, bad traffic, Metro delays, emails stuck in your outbox, etc. Beyond this, I do not accept assignments that are turned in even a few minutes late regardless of the reason. So,
please plan in advance and use your freebies wisely. If you are traveling, please plan ahead to make sure you can either get your assignments in before you leave or submit them electronically while you are on the road. More generally, please keep in mind that you bear the risk of any last-minute problems or crises, so be sure to budget for this possibility.

**Snow Day Policy:** On snow days (declared by the university), class will be held online – at the regular meeting time – using Blackboard’s videoconferencing technology. You will log in to the virtual classroom from home, using the link available on Blackboard. For students who are unable to attend live, recordings will be made available on Blackboard. Worksheets completed in online classes must be emailed to me after class (you can just take pictures and send them) or submitted in hard copy during the next in-person class. You may submit the worksheet for credit even if you didn’t attend live, but you must do so before or during the next in-person class.

**Disabilities:** If you are a student with a disability and you need academic accommodations, please see me and contact the Disability Resource Center (DRC) at 993-2474. All academic accommodations must be arranged through the DRC.

**Important Dates:**

<table>
<thead>
<tr>
<th>Date and Time</th>
<th>Event</th>
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<tbody>
<tr>
<td>September 7 at noon</td>
<td>Problem Set 1 due</td>
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<tr>
<td>September 21 at noon</td>
<td>Problem Set 2 due</td>
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<tr>
<td>October 5 at noon</td>
<td>Problem Set 3 due</td>
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<tr>
<td><strong>October 11 in class</strong></td>
<td><strong>Midterm Exam</strong></td>
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<tr>
<td>October 19 at noon</td>
<td>Memo topic due</td>
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<td>October 26 at noon</td>
<td>Problem Set 4 due</td>
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<td>November 9 at noon</td>
<td>Problem Set 5 due</td>
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<td>November 30 at noon</td>
<td>Problem set 6 due</td>
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<tr>
<td>December 6 in class</td>
<td>Presentations</td>
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<tr>
<td><strong>December 8 at noon</strong></td>
<td><strong>Memo due</strong></td>
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<tr>
<td>???</td>
<td>Final Exam</td>
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**Tentative Schedule and Reading Assignments:**
Please note that this schedule is tentative and subject to change. Please always consult the online version of this syllabus for the assigned reading.

<table>
<thead>
<tr>
<th>Date</th>
<th>Topics and Readings</th>
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<tbody>
<tr>
<td><strong>August 30</strong></td>
<td><strong>Overview of Public Finance, Review Microeconomic Tools</strong></td>
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<tr>
<td></td>
<td><strong>Required Reading:</strong> Gruber Ch. 1-2</td>
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<td></td>
<td><strong>Optional Reading:</strong> Landsburg Ch. 8</td>
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<td></td>
<td>Friedrich Hayek, “The Use of Knowledge in Society,” American Economic Review,</td>
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35(4), September 1945, 519-530.

### September 6

**Empirical Analysis and Budget Concepts**

**Required Reading:**
Gruber Ch. 3-4

**Optional Reading:**
Landsburg Ch. 11

### September 13

**Externalities**

**Required Reading:**
Gruber Ch. 5-6

**Optional Reading:**
Landsburg Ch. 9

### September 20

**Public Goods**
**September 27**  
**Cost Benefit Analysis and Political Economy**

**Required Reading:**  
Gruber Ch. 8 and 9  
Landsburg Ch. 10 (posted on Blackboard)

**Optional Reading:**  
Landsburg Ch. 6  

**October 4**  
**Finish Political Economy, Review for Midterm**

**Required Reading:**  
Gruber Ch. 9

**Optional Reading:**  
Landsburg Ch. 6  

**October 11**  
**MIDTERM**

**October 18**  
**Social Insurance and Social Security**
### Required Reading:
Gruber Ch. 12-13

### Optional Reading:

**October 25**

**Health Care**

**Required Reading:**
Gruber Ch. 15

**Optional Reading:**
- Gruber Ch. 16
- Landsburg Ch. 3

**November 1**

**Income Distribution, and Welfare**

**Required Reading:**
Gruber Ch. 17, 21.3

**Optional Reading:**
## November 8  
**Tax Systems and Tax Incidence**

**Required Reading:**
Gruber Ch. 18-19, 24.1, 24.3

**Optional Reading:**
Landsburg Ch. 4
Benjamin H. Harris, *Corporate Tax Incidence and Its Implications for Progressivity,* Tax Policy Center, November 2009.

## November 15  
**Taxes and Efficiency; Optimal Taxation**

**Required Reading:**
Gruber Ch. 20

**Optional Reading:**
Landsburg Ch. 7

## November 22  
**Thanksgiving Break**

## November 29  
**Taxes on Work and Saving**

**Required Reading:**
Gruber Ch. 21-22
**Landsburg Ch. 15**

**Optional Reading:**
Ed Prescott, *“Why Do Americans Work More than Europeans?”* *Wall Street Journal*, October 21, 2004

**December 6**

**Presentations / Tax Reform**

**Required Reading:**
Gruber Ch. 25
Landsburg Ch. 12

**Optional Reading:**

**??**

**Final Exam**