

Fall 2007  
TR 5:00- 6:20  
DKH 123

**Public Sector Economics**  
Econ 411

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**Office Hours:** Tuesdays 4:00-5:00.

**Text:** Jonathan Gruber, Public Finance and Public Policy,  
2nd ed., Worth Publishers, 2007.

**Teaching Assistant:** Harry Tsang ([htsang@uiuc.edu](mailto:htsang@uiuc.edu)).

Harry will hold office hours in the Survey Building, room 103 on Thursdays from 11:00 a.m. to 12:00 p.m. You can also ask him questions by email.

This course applies economic analysis to study the positive and normative theories of the state and its role in a mixed economy. There are three major subject matters. First, we examine the role of the state in areas prone to market failure such as externalities, the environment, and incomplete information. Second, we study the recent developments in political economy. Our final topic is taxation. We study incidence, incentive effects of different tax structures, and the theory of optimal taxation.

As the course progresses, you will be expected to be following the corresponding material in the text. If you find something incomprehensible, do not hesitate to ask me or Harry. Under no circumstances, wait until the exam or, worse still, sweep it under the rug.

**Course Grade:** There will be a final, one midterm and weekly online homeworks. The final will count for 40% and the midterm and homeworks each for 30% of your final grade. Participation in the final and the midterm is compulsory, but the two lowest online homework grades will be dropped. Any homework which is not submitted by the due date will be considered as one of the dropped assignments. This is regardless of the reason and with no exception.

**Homeworks:** The homework assignments will be available on the Compass course website – <http://compass.uiuc.edu>. These will be due Monday at 2:00 a.m.

**Midterm:** Class time, Thursday October 4, 2007.

**Final:** Friday, December 14, 2007, starting at 7 pm (in the regular classroom).

Tuesday, December 11, 2007, starting at 7 pm (in the regular classroom).

## **Topics of Discussion and Essential Readings in Gruber**

- Topic 1: Introduction  
ch 1, ch 2 (pp 49-55)
- Topic 2: Externalities  
ch 5-6
- Topic 3: Public goods  
ch 7
- Topic 4: Political economy  
ch 9
- Topic 5: Social insurance  
ch 12
- Topic 6: Social security  
ch 13
- Topic 7: Health insurance  
ch 15
- Topic 8: Income distribution  
ch 17
- Topic 9: Introduction to taxation  
ch 18
- Topic 10: Tax incidence  
ch 19
- Topic 11: Optimal taxation  
ch 20
- Topic 12: Taxation and risk taking  
ch 23