

**American University of Beirut
Faculty of Arts and Sciences
Department Economics**

Econ 226 – Public Finance

1. Course Learning Outcomes

After completing this course students should be able to:

- a. Explain the basic economic theories of Public Finance.
- b. Identify the strengths and limitations of these theories.
- c. Link theories to empirical evidence, focusing on the U.S. and the MENA region.
- d. Write a basic paper in economics – using proper citations of references.
- e. Engage in an articulate (online) discussion of selected topics.
- f. Analyze and critically evaluate the economic research of others.
- g. Successfully work with a group of colleagues to complete a project.
- h. Present and discuss research results before the class (group presentation).

2. Resources Available to Students

All course material can be purchased from the AUB bookstore.

- Joseph Stiglitz, *Economics of the Public Sector, Third Edition*, 2000.
- Laurie Rozakis, *Schaum's Quick Guide to Writing Great Research Papers* (1999).
- Various complimentary papers, available on WebCT.

3. Grading Criteria

The course will consist of a mid-term exam, a final exam (*not cumulative*), two individual papers, a group project, and on-line class discussions via WebCT.

Mid-term Exam (tentatively scheduled for December 1)....	20%
Papers (two individual papers – 10 % each).....	20%
Group Project (paper + presentation).....	15%
On-line Discussions and Class Participation.....	20%
Final Exam.....	25%

On-line discussions will begin in Week 3 and will average one discussion every other week. They will require students to post a comment about the assigned readings (100-150 words in length) by the day before we are to discuss a paper in class, and post at least one response (50-100 words in length) at least one hour before the start of class.

Papers will be 3-4 pages long (excluding bibliography, tables, and figures), double-spaced, numbered, and in 12-point Times New Roman font. Papers should largely be free of grammatical errors and *properly* cite all sources. Rozakis has been assigned for this purpose.

4. Schedule (Tentative)

Week 1 Introduction

Chapter 1: The Public Sector in a Mixed Economy
Chapter 2: The Public Sector in the United States

Week 2 Fundamentals of Welfare Economics

Chapter 3: Market Efficiency
Chapter 4: Market Failure

Week 3 Fundamentals of Welfare Economics (Cont.)

Chapter 5: Efficiency and Equity

Anand and Ravallion, "Human Development in Poor Countries: On the Role of Private Incomes and Public Services," *Journal of Economic Perspectives*, Vol. 7(1), Winter 1993, pp. 133-150.

World Bank. "Introduction: New Directions in Development Thinking," in *Entering the 21st Century: World Bank Development Report, 1999-2000*, pp. 13-30.

Week 4 Public Expenditure Theory

Chapter 6: Public Goods and Publicly Provided Private Goods
Chapter 7: Public Choice

Weeks 5 Public Expenditure Theory (Continued)

Chapter 8: Public Production and Bureaucracy

Rajkumar, A. and V. Swaroop. "Public Spending and Outcomes: Does Governance Matter?" World Bank Working Paper in Governance, Corruption and Legal Reform, Number 2840.

Omran, "Detecting the Performance Consequences of Privatizing Egyptian State-Owned Enterprises: Does Ownership Structure Really Matter?" Economic Research Forum, Eighth Annual Conference, January 2002.

Weeks 6 Public Expenditure Theory (Continued)

Chapter 9: Externalities and the Environment

World Bank. "Managing a Broader Portfolio of Assets," Chapter 2 in *Sustainable Development in a Dynamic World: World Bank Development Report, 2003*, pp. 13-35.

World Bank. "Institutions for Sustainable Development," Chapter 3 in *Sustainable Development in a Dynamic World: World Bank Development Report*, 2003, pp. 37 - 58.

Week 7 Evaluating Expenditure Programs

Chapter 10: The Analysis of Expenditure Policy
Chapter 11: Cost-Benefit Analysis

Weeks 8 Specific Expenditure Programs

Chapter 14: Social Insurance
Chapter 15: Welfare Programs and the Redistribution of Income

James, Estelle. "New Models for Old-Age Security: Experiments, Evidence, and Unanswered Questions." *World Bank Research Observer*, August 1998.

Shaban, R., D. Abu-Ghaida, A. Al-Naimat. "Poverty Alleviation in Jordan: Lessons for the Future" *World Bank Report*, 2001.

Weeks 9 Specific Expenditure Programs (Continued)

Chapter 16: Education

Dah, Abdallah, and Salwa Hammami. "Returns to Education in Lebanon." Economic Research Forum, Seventh Annual Conference, 2002.

Galal, Ahmed. "The Paradox of Unemployment in Egypt." March 2002. Prepared for the Fourth Mediterranean Development Forum, 2002.

DECEMBER 1: MID-TERM EXAM **TENTATIVE DATE**

Week 10 Taxation Theory

Chapter 17: Introduction to Taxation

Week 11 Taxation Theory (Continued)

Chapter 18: Tax Incidence
Chapter 19: Taxation and Economic Efficiency

Week 12 Taxation Theory (Continued)

Jalali-Naini "The Structure and Volatility of Fiscal Revenues in MENA Countries." Prepared for the Third Mediterranean Development Forum, March 2000.

Nashashibi, Karim. "Fiscal Revenues in South Mediterranean Arab Countries: Vulnerabilities and Growth Potential." IMF Working Paper 20/67, April 2002.

Burgess, R. and N. Stern. "Taxation and Development," *Journal of Economic Literature*, June 1993, pp. 762-830.

Week 13 Taxation Strategies

Chapter 20: Optimal Taxation
Chapter 21: Taxation of Capital

Week 14 Further Issues

Chapter 26: Fiscal Federalism
Chapter 28: Deficit Finance

Atallah, Sami. "How well is Lebanon fiscally decentralized?" Prepared for the Fourth Mediterranean Development Forum, October 2002.

Week 15 Group Presentations

5. Course Policy

If you enter the classroom after class has started, please take your seat as quickly and quietly as possible (and without greeting all your friends along the way.)

If a student chooses not to participate (and limits non-participation to his/herself), s/he can lose up to 10% of the grade. If a student consistently disrupts class by, for example, having conversations with other students, s/he may lose up to 20% of the grade. In Economics we call this policy "internalizing a negative externality". We will cover this topic in Week 6.

Office hours are an excellent venue for asking questions and assessing your progress. I will be available for class-related questions and discussions only during my office hours or through an appointment set up at least one day in advance.

If a student is caught cheating or plagiarizing s/he will fail that exam or paper and their name will be forwarded to the Student Affairs Committee for disciplinary action.

Written documentation is required (but not necessarily sufficient) for any missed exam. Missing an exam is very serious and will be handled on a case-by-case basis.