

BEPP 201/770: Introduction to Business Economics and Public Policy
Fall Semester 2013, Tues-Thurs 1:30-2:50, SHDH 109

The first part of this course will be taught by Mark Duggan and the second by Laura Kawano (see further details below). There are also two teaching assistants for this course – Lindsey Johnson (lindsey.johnson@law.upenn.edu) and Leyla Mocan (lmocan@wharton.upenn.edu). We will provide more info soon about Leyla and Lindsey's office hours.

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Office Hours: [MD] Tuesday 3-4pm and Thursday 4-5pm
[LK] Tuesday 3-4pm and Thursday 10-11am

Recitation (optional): Fridays 11am – 12pm or 12-1pm.

Course Description: This course will examine the role of the government in the economy and its impact on individuals and firms. The aim of the course is to provide an understanding of the reasons for government intervention in the economy, the extent of that intervention, and the response of individuals and firms to the government's actions. A wide variety of topics will be covered including but not limited to environmental regulation, education, health care, social insurance programs, budget deficits, and the taxation of both individuals and firms.

Requirements and Grading: There are four sets of requirements for this course:

- 1) Readings - The textbook is Jonathan Gruber, Public Finance and Public Policy, Fourth Edition. The text will be a useful complement to the lectures, but it is definitely not a substitute. We have placed 3 copies of this book on reserve at Lippincott Library and it should also be available for purchase at the Penn bookstore. There is also an optional book for the tax section of the course – Taxing Ourselves by Joel Slemrod and Jon Bakija. Some additional supplementary readings may also be assigned.
- 2) Exams - There will be three in-class exams on Tuesday October 8, Tuesday October 29, and Tuesday December 10. Each exam will be worth 20% of your grade.
- 3) Short response papers of 1,000 words (2-3 pages) or less in length. Eight will be assigned and we will only "count" your best six (so feel free to hand in only six or seven). These will give you an opportunity to explore some of the issues covered in class in greater depth and will be worth 30% of your grade (5% each).
- 4) Problem sets (4 or 5 of them) will count 10% of your grade. It is ok for you to work together with your fellow students on these problem sets though each student should hand in his/her own assignment and contribute to the effort.

Add/Drop and Withdrawal Deadlines: As per Wharton / Penn policy, you may drop a course with no notation on your transcript until Friday, October 4, 2013. From Saturday, October 5, 2013 through Friday, November 8, 2013, you may withdraw from the course, but only with the written permission of Professor Duggan or Kawano. Withdrawals appear on the transcript as a W and are not calculated in the GPA. After November 8, 2013, withdrawals will not be permitted.

Exam Regrades: To submit a regrade request for an exam, you must submit your original test paper, a signed regrade affidavit (see the course Canvas for the template), and a written memorandum explaining why you think that the exam should be regraded. This request must be submitted within 5 business days after the graded examination papers have been made available for pickup. Your entire exam will then be reviewed, and your grade may go down, go up, or remain unchanged. Students must not mark, make notes on, or otherwise alter the exam papers for which they seek a regrade; any such alteration will be seen as a violation of the Code of Academic Integrity and students will receive an automatic failing grade for the course.

Missing an Exam: Students may miss scheduled examinations only with a University-approved excuse; such valid excuses include direct conflicts with another course offered at Penn that cannot be rescheduled as well as a varsity (but not club) sport competition (but not training). In particular, job interviews are *not* a legitimate reason to miss an exam. Missing an exam without a University approved excuse will result in a zero for the exam.

Expectations: All students must become familiar with and adhere to the Penn Code of Academic Integrity (http://www.upenn.edu/academicintegrity/ai_codeofacademicintegrity.html).

Outline of the First Part of the Course:

Lecture 1 (8/29): Introduction and Background

- Gruber Chapter 1
- Why does the government intervene, how should it intervene, and what are the effects?
- Overview of government's reach in the U.S. and comparison with other countries
- A few current and future policy issues – education, health care, and social security.

Lecture 2 (9/3): Tools of Public Economics

- Gruber Chapters 2 and 3
- Quick overview of utility and profit maximization
- Distinguishing correlation and causation

Lectures 3-4h1 (9/5 and 9/10): Externalities

- Gruber Chapter 5 and sections 6.1 and 6.3
- Examples of externalities
- Private sector versus government solutions
- Price or quantity regulation?
- Examples: pollution and smoking

Lectures 4h2-5 (9/10 and 9/12): Public Goods and Cost-Benefit Analysis

- Gruber Chapter 7 and sections 8.1 and 8.2
- Private versus public provision
- Estimating costs and benefits

Lecture 6 (9/17): State and Local Governments

- Gruber Chapter 10
- Which level of government should cover which responsibilities?
- The impact of economic conditions on state and local governments

Lectures 7 and 8 (9/19 and 9/24): Education

- Gruber Chapter 11
- Overview of K-12 education, returns to schooling, effects of school inputs
- Overview of higher education, state subsidies, Pell Grants, subsidized loans

Lecture 9 (9/26): Guest Lecture by Rohit Chopra, CFPB Student Loan Ombudsman (and Wharton alum) will discuss issues regarding federal student loans – see for example:

<http://www.consumerfinance.gov/speeches/student-debt-swells-federal-loans-now-top-a-trillion/>

Lecture 10 (10/1): Social Insurance Programs

- Gruber Chapter 12
- Overview of social insurance programs
- Rationale for social insurance
- Protection versus distortion

Lecture 11 (10/3): Social Security

- Gruber Chapter 13
- Description of the program
- Background on enrollment and expenditures
- Assessing effect on retirement, poverty, and other outcomes
- Options for social security reform

Lecture 12 (10/8): Exam #1 (covers through Education lectures)

Lecture 13 (10/15): Unemployment Insurance, Disability Insurance, and Workers' Compensation

- Gruber Chapter 14
- Program financing and benefit determination
- Impact on firms and individuals
- Options for reform

Lectures 14 and 15 (10/17 and 10/22): Health Insurance

- Gruber Chapters 15 and 16
- Background on health insurance coverage and health care spending
- Tax subsidy to health insurance
- Medicare, Medicaid, and other government programs
- Affordable Care Act

Lecture 16 (10/24) [LK]: Income distribution

- Gruber Chapter 17
- Income distribution in the U.S. and redistributive programs

Lecture 17 (10/29): Exam #2 (covers Social Insurance through Health Insurance)

Outline for the Second Part of the Course:

Description: Oliver Wendell Holmes wrote, “Taxes are the price we pay for a civilized society.” How can this price be paid in a manner that is fair and transparent, with minimal distortions to economic activity? To what extent should the tax system itself be used to achieve the policy goals of a “civilized society” in addition to raising revenue? This part of the course is about the economics of taxation and government finance. There are four major sections. We will begin by establishing a framework for tax analysis. We will then discuss issues around the taxation of individuals and of businesses. We will conclude by using the tools you’ve learned from the first half of the course to inform the discussion about the current fiscal imbalance and to consider tax reform options.

Lecture 18 (10/31): Introduction to Tax

- Gruber Chapter 18
- Current U.S. tax policy and issues
- Tax language and concepts

Lecture 19 (11/5): A Framework for Tax Analysis, Part I

- Gruber Chapter 19
- Incidence
- Equity and fairness

Lecture 20 (11/7): A Framework for Tax Analysis, Part II

- Gruber Chapter 20, Chapter 18 pp. 540-549
- Efficiency and optimal taxation
- Using the tax system to deliver social policies

Lecture 21 (11/12): Taxation of Individuals, Part I

- Gruber Chapter 18 pp. 5540-554, Chapter 21
- Taxation and the family
- Taxation and labor supply

Lecture 22 (11/14): Taxation of Individuals, Part II

- Gruber Chapters 22 and 23
- Taxes and savings
- Taxes on risk taking and wealth

Lecture 23 (11/19): Other issues in taxation in brief

- Tax evasion and enforcement
- Tax complexity and salience

Lecture 24 (11/21): Taxing Business Income, Part I

- Gruber Chapter 24
- Corporate tax overview and incidence
- Impact of business taxes on firm decisions

Lecture 25 (11/26): Taxing Business Income, Part II

- Gruber Chapter 24
- International aspects of corporate taxation
- Corporate tax compliance
 - Desai, Mihir. 2005. "The Degradation of Reported Corporate Profits." *Journal of Economic Perspectives* 19(4): 171-192.

Lecture 26 (12/3): Fundamental Tax Reform and Challenging Budget Issues

- Gruber Chapter 25
- Issues and options
- Tax policy as a short-term stabilizer
- The long-term fiscal imbalance

Lecture 27 (12/5): Guest lecture

- Matt Knittel, Director of the Independent Fiscal Office for the State of Pennsylvania (and former financial economist at the Office of Tax Analysis, U.S. Department of Treasury), will discuss his experience in the U.S. Treasury Department at the Independent Fiscal Office, as well as the current economic policy climate for the state of Pennsylvania and other state governments.

Lecture 28 (12/10): Exam #3 (covers Tax part of the course)