

# 14.41: PUBLIC ECONOMICS

Fall Term, 2005

Professor Jonathan Gruber  
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Office Hours: Monday 2:30-4:00, Wednesday 2:30-4:00, and by appointment

This course examines the role of the public sector in the economy. 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 private agents to the government's actions.

Prerequisites: 14.01

Class Meetings: Lectures will meet on Monday and Wednesday, from 1 to 2:30 in room E51-145. Sections will meet on Friday. One will meet from 11-12 in room E51-063. The other will meet at 1-2, in room E51-085. Attendance at sections is required.

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

- 1) Readings - The only required reading is my textbook, Public Finance and Public Policy, which is for sale at the Coop.
- 2) Exams - There will be midterm exam worth 25% of the grade, and a final worth 50%. The midterm will be in class on Wednesday, October 12<sup>th</sup>.
- 3) Problem Sets - There will be 5 problem sets throughout the semester, each of which will consist of both mathematical exercises and essay questions. This requirement will be worth the remaining 25% of the grade. **NO LATE PROBLEM SETS WILL BE ACCEPTED FOR ANY REASON**

Website: The course website can be found at [web.mit.edu/14.41/www/](http://web.mit.edu/14.41/www/). Problem sets and other course materials will be posted there.

Teaching Assistants: Chris Smith ([clsmith@mit.edu](mailto:clsmith@mit.edu)), Jim Berry ([jimberry@mit.edu](mailto:jimberry@mit.edu)). Office hours: Tuesday, 4-5:30, room E52-398 (Chris). Thursday: 3:30-5, room E52-398 (Jim).

- 1) Why Study Public Finance?  
Gruber, Chapter 1
- 2) Externalities in Theory and Practice  
Gruber, Chapters 5 & 6
- 3) Public Goods in Theory and Practice
  - A) Basic theory, optimality and pricing  
Gruber, Chapter 7
  - B) Cost/Benefit Analysis  
Gruber, Chapter 8
  - C) Political Economy  
Gruber, Chapter 9
  - D) Local Public Goods & Fiscal Federalism  
Gruber, Chapter 10
  - E) Public Provision of Private Goods: Education  
Gruber, Chapter 11
- 4) Social Insurance and Redistribution
  - A) Overview  
Gruber, Chapter 12
  - B) Social Security  
Gruber, Chapter 13
  - C) Unemployment Insurance, Disability Insurance and Workers' Compensation  
Gruber, Chapter 14

- D) Health Insurance  
Gruber, Chapters 15-16
- E) Redistribution and Welfare Policy  
Gruber, Chapter 17
- 7) The Institutions and Theory of Taxation  
Gruber, Chapters 18-20
- 8) Taxation and Individual Behavior
  - A) Taxation and Labor Supply  
Gruber, Chapter 21
  - C) Taxation and Savings  
Gruber, Chapter 22
  - D) Taxation, Risk Taking and Wealth  
Gruber, Chapter 23
- 9) Corporate Taxation  
Gruber, Chapter 24
- 10) Tax Reform  
Gruber, Chapter 25