

## Econ 331: Public Finance Course Narrative

This discipline of Public Finance deals with the interaction of the private market and government. Typically students enter the course with a limited understanding of markets that they garner from a lower-level (usually 100 or 201) course where the efficiency of market outcomes is demonstrated. Though market failure is a typical late-semester topic in these lower-level courses, it is not the focus and is sometimes lost. This course is almost entirely about the cases where markets are likely to fail, government's role in dealing with the failure and the resulting consequences of government actions.

Specifically, the course teaches students to understand the conditions under which a market is likely to provide goods and services at a level and at a price that is in society's interests. The course then goes on to enumerate the scenarios (monopoly power, externalities, public goods, asymmetric information) where markets are not likely to produce maximum societal benefits.

The course then describes the historical context, and the political, and social responses of each of these market failures and describes how, through subsidies, taxes, regulation, and/or public provision government can ensure that the socially optimal level of production of goods and services can be accomplished. The next step in the course is to analyze the consequences of the taxes that are necessary to pay for government.

Taken as a whole the course is intended to teach students how to think about public policy issues as an economist. Simply put, they are expected to be able to analyze common everyday issues presented in newspapers as an economist might. Specific analytical tools are developed that will enable students to investigate several public policy issues such as taxation, welfare, public education, national defense, and health care. These tools will allow students to see clearly why advocates of government intervention see a need for policy where advocates of limited government see none. Students then see why economists resort to empirical analysis to settle these debates.

In the end students use several of the Foundational Studies program's ways-of-knowing (quantitative literacy, health and wellness, social and behavioral sciences, historical studies, and ethics and social responsibility) as they sift through these issues. Taking, for example, the issue of Social Security, students use the social science models of economics to explain why retirement markets can fail, use the quantitative literacy tools to show how the Social Security tax's legal incidence is not likely its only economic burden, while placing Social Security in the historical context of the Great Depression of the 1930s and stock market crash of 1929. In so doing they understand the social and ethical considerations at play when retirement savings markets fail. They are compelled to analyze these issues and to write about them in both reflective essays, exams, and in a researched and documented paper.

Econ 331: Public Finance  
Indiana State University  
Wed. 6:15 pm- 9 pm HH 007  
Spring 2008

Instructor: Dr. Debra Israel<sup>1</sup>

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### **Course Description and Objectives**

This course serves two purposes. It is an upper division elective within the Economics major and it is also an Integrative Upper Division Elective for Foundational Studies 2010. As an upper-division economics course, this course is intended to explore the field of public finance which examines both government expenditures and revenue generation. We will learn how economic analysis can help us understand the effects of government expenditures and taxation on the actions of individuals and firms. We will learn about both economic theory and empirical research related to public finance. We will examine public policies from an economic efficiency and equity perspective. We will also explore how economics can help balance competing interests and provide tools to compare the costs and benefits of various policy options. As an integrative upper-division elective in the Foundational Studies program the course is intended to demonstrate how an important field of economics brings together several of the Foundational Studies program's ways-of-knowing (quantitative literacy, WoK-QL; health and wellness, WoK-H&W; social and behavioral sciences, WoK-SBS; historical studies, WoK-Hist; and ethics and social responsibility, WoK-E&SR) into one field of study.

### **As an upper-division economics course I expect students to:**

1. improve analytical skills in order to apply economic theory to public policy issues
2. develop their abilities to apply economic theory using words, mathematical expressions, and graphs
3. develop their abilities to critically analyze different perspectives on public policy issues
4. learn to apply material from this course to situations in the news and in their own lives
5. demonstrate oral communication skills through class discussions, presentations, and survey research
6. improve written communication skills through research and written analysis
7. improve library research skills, particularly finding articles through library computer databases
8. learn to interpret results from empirical statistical models
9. learn where to obtain relevant economic statistics and how to interpret them

To be an Integrative Upper Division Elective a course must meet the following learning objectives (IUDELO):

1. Use a thematic approach to a particular topic or issue that integrates multiple ways of knowing;

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<sup>1</sup> Prior to 2002, this course was taught by Dr. Guell. When the Department began to require Econ 370 it was assigned to Dr. Guell so Dr. Israel took over this course. It is possible that Dr. Guell will return to this course, and if he does the course will be structured in a similar (but not identical) fashion to that laid out in this syllabus.

2. Engage in a project or conduct research that makes use of multiple ways of knowing to address a particular topic or issue;
3. Analyze and write at an advanced level.

Because this course is part of the larger Foundational Studies Program, it is important to place its goals within the context of the program's goals. By the conclusion of your Foundational Studies Program at ISU, you will be able to (FSLO)

1. Locate, critically read, and evaluate information to solve problems;
2. Critically evaluate the ideas of others;
3. Apply knowledge and skills within and across the fundamental ways of knowing (natural sciences, social and behavioral sciences, arts and humanities, mathematics and history);
4. Demonstrate an appreciation of human expression through literature and fine and performing arts;
5. Demonstrate the skills for effective citizenship and stewardship;
6. Demonstrate an understanding of diverse cultures within and across societies;
7. Demonstrate the skills to place their current and local experience in a global, cultural, and historical context;
8. Demonstrate an understanding of the ethical implications of decisions and actions
9. Apply principles of physical and emotional health to wellness;
10. Express (yourself) effectively, professionally, and persuasively both orally and in writing.

The program is also designed to build skills for applied learning. These Skill and Applied Learning Objectives (S&ALO) require that the course contribute to

1. Explicitly demonstrate how the curriculum will develop critical thinking skills
2. Explicitly demonstrate how the curriculum will develop information literacy skills
3. Include a graded writing component, which whenever possible is developmental
4. Must incorporate opportunities for students to critically read and analyze sophisticated, complex text, and to write intensively.
5. Must include assignments that apply information from within and across various "ways of knowing"

### Materials

Gruber, Jonathan. *Public Finance and Public Policy*, Worth Publishers, 2007, 2<sup>nd</sup> edition. **(Required)**  
*Wall Street Journal* **(Required)**

### General Class Procedures and Policies

I expect students to complete the assigned readings before class and to come prepared for discussion. The calendar at the end of the syllabus gives a general guideline for each week's textbook readings. Some weeks do not have textbook readings chosen yet. These will be filled in depending on the predominant interest of students in the class. **Modifications may be made to the schedule depending on how quickly we progress.** In addition to the textbook readings, I will assign readings either placed on course reserve, from WSJ articles or from articles that are accessible through library databases, or require students to find articles for discussion on specific topics. We will also be reading case studies on the public funding of education, which will be provided to students.

In order to understand economic theory and to apply it to different public policy issues, you will need to practice solving problems yourself. The assigned problems will give you the opportunity to do this. If you have any difficulties or questions during the course, please contact me about them sooner rather than later. If you send me an email or leave me a phone message, I will always reply when I receive it. Therefore, if you do not receive a response, assume that I did not get your message. If I need to contact the class in between class sessions I will use email. Attendance at all class meetings is very important, particularly since class only meets once a week. If you do not attend class you will not be able to

participate and actively learn about the topics under study. If you do miss or come late to class, you are responsible for finding out what you missed.

### **Grading**

Midterm Exam	(15%)
Final Take-home Exam	(20%)
Case Study	(5%)
Preliminary paper and bibliography	(5%)
Research Paper	(20%)
Reflective Essays on Public Policy (4)	(10%)
Homework Problems	(15%)
Participation	(10%)

**Note:** All students are expected to adhere to the Code of Student Conduct. Academic dishonesty in any portion of the academic work in this course shall be grounds for awarding a grade of F for the work or the entire course.

### **Exams (35%)**

There will be **one in-class midterm exam** during the semester (15%) and a **cumulative final take-home exam** (20%). **A make-up exam will only be allowed in clear cases of emergency or schedule conflict.** If at all possible, I must be notified of an absence **before** the scheduled exam. Exams will be based on material from the textbook and additional readings, discussions and presentations, and material covered in class. Exams will be a combination of short answer and essay questions, requiring both written answers and use of mathematical analysis and graphs.

### **Case Study (5%)**

The case studies will come from Harvard's John F. Kennedy School of Public Policy and they will be on the topic of education. Group work on case studies will be during class time and each group will present its case study to the class. The grade will be based both on class participation and the group presentation. Presentation grades will reflect content (including economic analysis), understanding, presentation, and preparation.

### **Research Paper (20%) and Preliminary paper and bibliography (5%)**

The research paper will be on a topic of your choosing either to do with taxes, government expenditures or a combination of the two. In this paper you must demonstrate an integration of the Social Science Way of Knowing and at least one non-Social Science Ways of Knowing from the Foundational Studies Program. For example, you might choose the topic of public education and explore both the expenditures on public education and the funding sources and in so doing analyze the economic incidence issues along with the equity issues that exist between urban poor districts and suburban wealthier districts. A list of suggested topics and specific instructions will be provided to you.<sup>2</sup> You will be evaluated at both the beginning and the end of the research process. We will spend some time during class on techniques for developing the bibliography. At that time you will select TWO scholarly articles on your topic and you will write a TWO page paper comparing and contrasting the articles, relating them to your research question, and discussing the relevant economic analysis for the topic (referring to your textbook). This short paper will be peer-reviewed in class and you will briefly summarize your findings in a short oral presentation to the class (about 5 minutes). When you submit your TWO page paper you will also submit a proposed outline for your research paper along with your working bibliography. In addition to the feedback from your classmates, I will review your short paper, bibliography and outline and give you suggestions on how to progress with your full research paper. Your final paper will be double-spaced, word-processed, and 8-10 pages long (not counting title and reference pages). You must use the APA

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<sup>2</sup> Provided in the Appendix 1

reference style. You may find it necessary to obtain information through interlibrary loan, so please be sure to leave enough time for that process. You may not use only internet websites as sources. There are two due dates for your paper (shown in the calendar). If you submit your paper by the first due date it will be graded and returned to you with comments. Then, if you would like to improve your grade, you will have the chance to rewrite the paper based on my comments and resubmit the revised paper by the second due date. If you take this opportunity you must hand in both the original paper (with my comments) and the revised paper. If you choose to submit your paper at the second due date, then you will not have the opportunity to rewrite the paper for an improved grade.

### **Reflective Essays on Public Policy (10%)**

Each reflective essay will link a public policy topic to your own experiences and life. Two of the essays should be on tax topics and two on government expenditures. You are expected to utilize current news articles from either the *New York Times*, the *Wall Street Journal*, or *The Economist*, in addition to your textbook. As in the paper, in each you must demonstrate an integration of the Social Science Way of Knowing with at least one non-Social Science Ways of Knowing from the Foundational Studies Program. Your essay should be approximately 2-3 double-spaced, word-processed pages (not including reference page). The articles that you refer to should all be in the list of references at the end of the essay and cited within the body of the essay text. Essays will be evaluated for creativity, economic analysis of current events, comparisons of different articles about the topic, comparisons relating current events topics with your own experiences, coherent writing, and thoroughness of references.

### **Homework Problems (15%)**

Each week two homework problems will be assigned and should be completed for the following week's class. Since we will go over the homework problems in class, no late problems will be accepted. If you have to miss class you should arrange to turn in your homework problems ahead of time.

### **Participation (10%)**

The participation grade will be composed of participation on the field trip to the state capital in Indianapolis, participation at ISU Human Rights day, attendance at TWO out of class experiences related to class (such as Crackerbarrel sessions, ISU Ethics Conference sessions or other opportunities to be announced), participation in current events discussions, oral presentation on research paper topic, and leading class discussions on specific topics. The trip to the state capital will give us the opportunity to see firsthand how public finance works at the state level. Our class will participate in the ISU Human Rights day. Participation in current events discussions will be evaluated on the basis of bringing articles in to class and speaking in the class discussions.

***"The Sycamore Standard"***  
**Indiana State University**

Students at Indiana State University are expected to accept certain personal responsibilities that constitute the "standard" for behavior in a community of scholars.

As a student at Indiana State University:

I will practice personal and academic integrity; I will commit my energies to the pursuit of truth, learning, and scholarship; I will foster an environment conducive to the personal and academic accomplishment of all students; I will avoid activities that promote bigotry or intolerance; I will choose associations and define my relationships with others based on respect for individual rights and human dignity; I will conduct my life as a student in a manner that brings honor to me and to the University Community; I will discourage actions or behaviors by others that are contrary to these standards.

Adopted by the Indiana State University Student Government Association April 17, 2002

**Policy on Academic Integrity**

“Indiana State University requires that all students read and support the **Policy on Academic Integrity**. Academic Integrity is a core value of our community of learners. Every member of the academic community (students, faculty, and staff) is expected to maintain high standards of integrity in all facets of work and study. The **Policy on Academic Integrity** describes appropriate academic conduct in research, writing, assessment, and ethics. The policy is found in the **Code of Student Conduct** and on the web at [www.indstate.edu/sjp/](http://www.indstate.edu/sjp/).”

<http://www.indstate.edu/academicintegrity/studentguide.pdf>

**AMERICAN WITH DISABILITES ACT STATEMENT**

“Indiana State University seeks to provide effective services and accommodation for qualified individuals with documented disabilities. If you need an accommodation because of a documented disability, you are required to register with Disability Support Services at the beginning of the semester. Contact the Director of Student Support Services. The telephone number is 237-2301 and the office is located in Gillum Hall, Room 202A. The Director will ensure that you receive all the additional help that Indiana State offers.

If you will require assistance during an emergency evacuation, notify your instructor immediately. Look for evacuation procedures posted in your classrooms.”

**Laptop Usage**

While there will be no assignments or examinations for which the laptop will be used (in class), your use of a laptop is generally permitted as long as such usage remains within the bounds of the Code of Student Conduct and it conforms to the provisions of its use as laid out in this syllabus. There may be occasions where laptop usage is forbidden and if that occurs, failure to comply with this direction will be viewed as a violation of the Code of Student Conduct.

**Academic Freedom**

*Teachers are entitled to freedom in the classroom in discussing their subject, but they should be careful not to introduce into their teaching controversial matter which has no relation to their subject.*

The preceding comes from the American Association of University Professors statement on academic freedom. Though the entire statement<sup>3</sup> speaks to many issues, it is this portion on the conduct of the course that is most relevant. For the purpose of Foundational Studies courses this means that faculty have the right to conduct their class in a fashion they deem appropriate as long as the material presented meets the learning objectives laid out by the entire faculty.

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<sup>3</sup> <http://www.aaup.org/AAUP/pubsres/policydocs/contents/1940statement.htm>

## Calendar

Jan.9

Introduction to Class  
Microeconomics Review  
Ch. 1 Why Study Public Finance?

Jan. 16

Ch. 2 Theoretical Tools of Public Finance

Jan. 23

Ch. 3 Empirical Tools of Public Finance (appendix included)  
**Wed. Jan. 23 Reflective Essay #1 due at beginning of class**

Jan. 30

Ch. 5 Externalities; Ch. 7 Public Goods

Feb. 6

Ch. 8 Cost-Benefit Analysis

Feb. 13

**Wed. Feb. 13 Preliminary short paper and bibliography due  
Oral presentations**

Ch. 10 State and Local Government Expenditures

Ch. 11 Education

Start Case Studies on Education

Feb. 20

**Mon. Feb. 18 Field Trip to Indianapolis (State Capitol visit)**

Present Case Studies on Education

Continue Ch. 10 and 11

Feb. 27

Ch. 18 Taxation in the United States and Around the World

**Wed. Feb. 27 Reflective Essay #2 due at beginning of class**

Mar. 5

In-class Midterm Exam

Readings TBA

Mar. 10-14 (No Classes, Spring Break)

Students are given the opportunity to choose their post-Spring Break topics from the list provided in Appendix 2. Their actual choices for Spring 2008 are shown in Appendix 3.
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Mar. 19

Readings TBA

**Wed. Mar. 19 Reflective Essay #3 due at beginning of class**

Mar. 26

Readings TBA

Apr. 2

Apr. 1 School of Business Ethics Conference

Readings TBA

**Fri. Apr. 4 Early Due Date Research Paper**

Apr. 9

Readings TBA

Apr. 16

Human Rights Day Activities

Readings TBA

**Fri. Apr. 18 Final Due Date Research Paper**

Apr. 22

Readings TBA

**Wed. Apr. 22 Reflective Essay #4 due at beginning of class**

Apr. 28-May 2 **Final Take-home Exam Due Mon. Apr. 28**

## Appendix 1

Public Finance  
Dr. Debra Israel  
Spring 2008

### Research Paper Topics

You will choose a topic from the following list of suggested topics. You may also combine a tax topic with an expenditure topic, when appropriate. If you prefer a topic that is not on the list you **must** discuss it with me beforehand. Your bibliographic sources should be primarily newspaper and magazine or journal articles, including scholarly peer-reviewed articles. For the preliminary paper you must find two scholarly, peer-reviewed articles on your topic to compare. I will also put books on course reserve that are relevant to this course. The paper must be written about the economic aspects of your topic. You must apply economic concepts from class or your textbook to your topic. The paper will be evaluated on the basis of content, organization and clarity, economic analysis, and research effort. You must cite all your sources and your work must be your own. Any plagiarism will be dealt with seriously. **On Wed. Jan. 16 we will go to the library in Room 229 during the latter part of class (8 - 9 pm) for library instruction on research databases to allow you to get a good start on your research.**

Agricultural policies  
Education (K-12 or higher ed)  
Evaluating Welfare Reform  
Incentive effects of poverty alleviation programs  
In-kind versus cash subsidies  
Social Security Reform  
Health Care reform  
Income tax rates and labor supply  
Taxation and Saving  
Capital gains tax policy  
Tax expenditures  
Marriage Tax  
Earned Income Tax Credit  
Taxation of multinational corporations  
Double taxation of dividends  
Alcohol or Cigarette Taxes  
Value-added taxation  
Sales taxes and the internet  
Estate tax reform  
Property tax reform  
Education finance  
State and local taxes



Appendix 2

**Chapter Choice Ballot**

**You have 10 points to distribute among these choices. The chapters with the most points will be covered in class. Incorrect ballots will not be considered, so make sure you only use 10 points.**

<b>Issue</b>	<b>Points</b>
Ch. 9 Political Economy	
Ch. 12 Social Insurance	
Ch. 13 Social Security	
Ch. 14 Unemployment Insurance, Disability Insurance, and Workers' Compensation	
Ch. 15 and 16: Health Insurance I & II	
Ch. 17 Income Distribution and Welfare Programs	
Ch. 19 Equity Implications of Taxation	
Ch. 20 Tax Efficiency	
Ch. 21 Taxes on Labor Supply	
Ch. 22 Taxes on Savings	
Ch. 23 Taxes on Risk Taking and Wealth	
Ch. 24 Corporate Taxation	
Ch. 25 Fundamental Tax Reform	

### Appendix 3

#### **Readings Update Econ 331: Public Finance Spring 2008**

Mar. 3 Field Trip meet 7:30 am at van in parking lot on Chesnut St. (East of 9<sup>th</sup> St.)

Mar. 5

In-class Midterm Exam

Mar. 10-14 (No Classes, Spring Break)

Mar. 19

Ch. 15 and Ch. 16 on health insurance

**Wed. Mar. 19 Reflective Essay #3 due at beginning of class**

Mar. 26

Textbook Ch. 13 Social Security

Apr. 2

Apr. 1 School of Business Ethics Conference

Ch. 19 Tax Incidence and Ch. 23 Taxes on Risk Taking and Wealth

**Fri. Apr. 4 Early Due Date Research Paper**

Apr. 9

Ch. 17 Income Distribution and Welfare Programs

Apr. 16

Human Rights Day Activities

Ch. 9 Political Economy

**Fri. Apr. 18 Final Due Date Research Paper**

Apr. 22

Readings to be announced

**Wed. Apr. 22 Reflective Essay #4 due at beginning of class**

Apr. 28-May 2 **Final Take-home Exam Due Mon. Apr. 28**

**Foundational Studies Ways of Knowing and Learning Objectives  
Course Learning Objective-FS Map**

Course Learning Objectives	Ways of Knowing						FS LO	S&A LO	IUDE LO
	SBS	QL	E&SR	Hist	H&W				
improve analytical skills in order to apply economic theory to public policy issues	X	X	X				1,2,3	1,5	1
develop their abilities to apply economic theory using words, mathematical expressions, and graphs	X	X					1,2,3	1,5	1
develop their abilities to critically analyze different perspectives on public policy issues	X	X	X				1,2,3	1,5	1
learn to apply material from this course to situations in the news and in their own lives	X	X	X	X	X		1,2,3	1,5	1
demonstrate oral communication skills through class discussions, presentations, and survey research							1,2,3,10	1	1,3
improve written communication skills through research and written analysis							1,2,3,10	1,5	1,3
improve library research skills, particularly finding articles through library computer databases							1,2,3	1,2	1
learn to interpret results from empirical statistical models	X	X					1,2,3	1,2,5	1
learn where to obtain relevant economic statistics and how to interpret them							1,2,3	1,2	1

**Foundational Studies Ways of Knowing and Learning Objectives  
Chapter-FS Map**

Chapter	Ways of Knowing						FS LO	S&A LO	IUDE LO
	SBS	QL	E&SR	Hist	H&W				
Ch. 1 Why Study Public Finance?	X						1,2,3,5	1	
Ch. 2 Theoretical Tools of Public Finance	X						1,2,3	1	
Ch. 3 Empirical Tools of Public Finance	X	X					1,2,3	1,2	1
Ch. 5 Externalities	X	X	X	X	X		1,2,3,8	1	1
Ch. 7 Public Goods	X	X	X				1,2,3,8	1	1
Ch. 8 Cost-Benefit Analysis	X	X					1,2,3	1	1
Ch. 9 Political Economy	X			X			1,2,3	1	1
Ch. 10 State and Local Government Expenditures	X		X	X			1,2,3,8	1	1
Ch. 11 Education	X		X	X			1,2,3,8	1	1
Ch. 12 Social Insurance	X		X	X	X		1,2,3,8,9	1	1
Ch. 13 Social Security	X		X	X			1,2,3,8	1	1
Ch. 14 Unemployment Insurance, Disability Insurance, and Workers' Compensation	X		X	X			1,2,3,8	1	1
Ch. 15 and 16: Health Insurance I & II	X		X	X	X		1,2,3,8,9	1	1
Ch. 17 Income Distribution and Welfare Programs	X		X	X			1,2,3,6,8	1	1
Ch. 18 Taxation in the United States and Around the World	X	X	X	X			1,2,3,8	1	1
Ch. 19 Equity Implications of Taxation	X	X	X				1,2,3,8	1	1
Ch. 20 Tax Efficiency	X	X	X				1,2,3,8	1	1
Ch. 21 Taxes on Labor Supply	X	X	X				1,2,3,8	1	1
Ch. 22 Taxes on Savings	X	X	X				1,2,3,8	1	1
Ch. 23 Taxes on Risk Taking and Wealth	X	X	X				1,2,3,8	1	1
Ch. 24 Corporate Taxation	X	X	X				1,2,3,8	1	1
Ch. 25 Fundamental Tax Reform	X	X	X				1,2,3,8	1	1

**Foundational Studies Ways of Knowing and Learning Objectives  
Assessment-FS Map**

Assessment	FS LO	S&A LO	IUDE LO
Exams	1,2,3,10	1,5	
Take Home Exam	1,2,3,7,10	1,5	1
Case Study	1,2,3,7,8,10	1,2,3,4,5	1
Preliminary Paper	1,2,3,7,8,10	1,2,3,4,5	1,2
Research Paper	1,2,3,7,8,10	1,2,3,4,5	1,2
Reflective Essays	1,2,3,5,7,8,10	1,3,5	1
Homework	1,3,10	1,5	
Participation	2,3,10	1,5	

## Public Finance in Plain English

<b>Chapter</b>	<b>What is Discussed</b>
Ch. 1 Why Study Public Finance?	Why markets sometimes fail to provide goods and services that are in society's interest, how government can provide those goods and services, and how the taxes necessary to fund those goods and services impact the economy.
Ch. 2 Theoretical Tools of Public Finance	The tools (supply and demand and consumer and producer surplus) allow the economist to determine when (or if) the market has failed.
Ch. 3 Empirical Tools of Public Finance	The tools (of statistics) are explained
Ch. 5 Externalities	An externality is when someone other than the consumer or producer is impacted (for good or ill) by the production of consumption of a good or service. This is the public finance economist's way of looking at pollution (a negative externality) and public education (a positive externality).
Ch. 7 Public Goods	Goods (like national defense and flood control) that can not be provided by a private market in a way that makes society as well off as possible.
Ch. 8 Cost-Benefit Analysis	The means by which economists analyze most policy decisions. The key is marginal analysis (the impact of small changes).
Ch. 9 Political Economy	Because most of these government choices occur in political realms, voter theory needs to be covered.
Ch. 10 State and Local Government Expenditures	In the United States there is a system of Fiscal Federalism where states and localities have the dominant role (police, fire, education, prisons) and this allows for states to make different choices based on different priorities and local preferences.
Ch. 11 Education	An explanation for the rationality of subsidizing education is offered and the impact of public education is examined.
Ch. 12 Social Insurance	This chapter discusses why insurance markets are likely to fail in the areas of retirement, and health care for the poor or aged.
Ch. 13 Social Security	The theoretical reasons why a government sponsored and enforced savings and annuity program are socially desirable. The practical problems of running a program in the presence of a demographic bulge are discussed.
Ch. 14 Unemployment Insurance, Disability Insurance, and Workers' Compensation	The theoretical reasons why private unemployment and disability markets are likely to fail and historical reasons why worker's comp systems were created are explored.
Ch. 15 and 16: Health Insurance I & II	Theoretical reasons why health insurance markets are likely to fail and how governments around the world have crafted programs to either provide for health care or provide for health care finance.
Ch. 17 Income Distribution and Welfare Programs	The chapter defines poverty and explains the method by which society chooses to combat it. The various programs are listed and evaluated and the role of incentives to get off these programs are discussed.
Ch. 18 Taxation in the United States and Around the World	The various forms of taxation and comparisons of them.
Ch. 19 Equity Implications of Taxation	Who pays taxes, how much, and who is hurt by a tax.
Ch. 20 Tax Efficiency	The question of how you can raise government revenue for the least harm to society are raised and answered.
Ch. 21 Taxes on Labor Supply	Payroll and income taxes are explored as they impact the desire to work.
Ch. 22 Taxes on Savings	Taxes on unearned income are explored as they relate to the motivation to save
Ch. 23 Taxes on Risk Taking and Wealth	Capital gains taxation is explored as it relates to encouraging or discouraging investing and entrepreneurial behavior.
Ch. 24 Corporate Taxation	Who pays the corporate tax? Corporate income taxes are the most-shifted tax. The result is that workers may bear the burden of the tax, the consumers of the goods that these corporations produce may bear its burden or the tax may be shifted to all owners of capital.
Ch. 25 Fundamental Tax Reform	How income and consumption taxes can be reformed to decrease the inefficiency of the system.