

COURSE: ECON 312 Fiscal Policy and Public Finance
CLASS MEETING TIME: Friday 14:40-17:30
CLASSROOM: FZ16
PREREQUISITE: ECON 201
INSTRUCTOR: Serap Trt Aık
OFFICE: FEAS 215
PHONE: 2103038
E-MAIL: sturut@metu.edu.tr
OFFICE HOURS: Wednesday: 14:00-14:30; Friday: 14:00-14:30;
and by appointment.
MAIN TEXT: Harvey S. Rosen and Ted Gayer, *Public Finance*, 10th Edition,
McGraw-Hill International Editions.

The textbook (Rosen and Gayer) we are going to use throughout the semester is about taxing and spending activities of the government, a subject usually called public finance. This term is something of a misnomer, because the fundamental issues are not financial. Rather the key problems relate to the use of real resources. For this reason, I prefer the label public sector economics or simply public economics. Public sector economics is basically the field of economics that studies the relationship between the State and the market.

The main objective of this course is to present some of the economic concepts and methods to analyze and evaluate the effects of alternative government policies. The emphasis will be on the microeconomic aspects of these policies (microeconomic aspects of government expenditures, taxes and the allocation of resources). Therefore, the course provides an introduction to the field of public sector economics.

COURSE OUTLINE AND READING LIST

1. Introduction to Public Sector Economics

- * Stiglitz, J. E. and Rosengard, J. K. (2015), *Economics of the Public Sector*, W. W. Norton and Company, 81-99.
- * Foley, D. K. (1978), "State Expenditure from a Marxist Perspective", *Journal of Public Economics*, 9, 221-226.

The first part which can be considered as an introduction to this course deals with how political views affect attitudes toward public sector. It provides a broad perspective for us.

2. Tools of Public Sector Economics

- * Rosen and Gayer Chapters 2 and 3

The second part deals with the tools of public sector economics. Economists seek to explain how the economy works –positive economics- and to determine whether or not it produces good results –normative economics-. So this part of the course describes the tools used by public sector economists to analyze both positive and normative issues.

3. The Theory of Public Goods

- * Rosen and Gayer Chapters 4 and 5
- * Foster, J. B. and Mc Chesney, R. W. (2011), "The Internet's Unholy Marriage to Capitalism", *Monthly Review*, 62 (10), 1-30.

Musgrave defines the functions of the government as: allocation, distribution and stabilization. The first two functions are microeconomic and the third one is macroeconomic. As this course focuses on the microeconomic functions we will only cover the allocation and distribution functions of the government. Therefore, the third part's focus is on public goods and externalities which are grouped under the allocative functions of the government.

4. Income Redistribution

- * Rosen and Gayer Chapter 12

- * Magdoff, F. (2012), "Food as a Commodity", *Monthly Review*, 63 (8), 15-22.

Part four deals with distribution issue, which is the other microeconomic function of the government, and it focuses on different criteria of equity in distribution.

5. Public Choice

- * Rosen and Gayer Chapter 6

The budget determination involves a political rather than a market process. So this part considers the political process more closely in terms of how to aggregate the individual choices to reach the societal choice by concentrating on the voting behavior.

6. Government Expenditures

- * Foley, D. K. (1978), "State Expenditure from a Marxist Perspective", *Journal of Public Economics*, 9, 226-238.

Part six introduces the most known theories of growth of public expenditures.

7. A Framework for Tax Analysis

- * Rosen and Gayer Chapters 14, 15 and 16

- * Ramakrishnan, A., Fischer, C., Steckel, J., Sterner, T. and Lindberg, V. (2025), "Emission Pricing in Developing Countries" in *Encyclopedia of Energy, Natural Resource, and Environmental Economics* (2e), pp. 189-202, ed. by Lundgren, T., Bostian, M. and Managi, S., Elsevier.

The last part of the course investigates taxation, which is the most important revenue source of the government. The goal of this part is to construct a theoretical framework for analyzing tax policy under different market settings. It also aims to define an efficient and optimal tax system.

COURSE REQUIREMENTS

There will be two midterm exams (each counting as 30% of your grade) and a cumulative final exam (counting as 40% of your grade). The midterm exams will take place on **November 20, 2025 at 17:40** and **December 25, 2025 at 17:40**. More information about the content and grading of exams will be provided later. Advance notice will be given for any changes in the syllabus. For a good comprehension of the subject, it is necessary and important that the reading material should be read before each lecture. The reading material, except the main text (Rosen and Gayer), will be provided through ODTUCLASS.