The U.S. has a capitalist economy, based on mostly private production and markets, but government involvement is extensive. Almost half of all income in the United States is collected and spent by governments at the national, state, and local levels. Most economic activities are regulated by these governments in some fashion. Some involvement is obvious. In recent months, state attorneys general negotiated a $200 billion plus compensation/regulation plan with U.S. tobacco companies, continuing a long line of government involvement in what used to be a largely unregulated industry. In fact, it is hard to think of many economic activities (legal ones at least) in which governments are not involved. The role of government in the economy is such an immense topic that any single course can only scratch the surface. The goal for the class is to better your understanding of what the government does (and does not do) in certain areas of economic policy, and why and how.

Although they are not clearly labeled as such, there are several parts of the course. First, we will review some economics and information about U.S. government that will be useful for the rest of the semester. This first section will also cover some big picture economic topics: debate about what the government's economic role should be, and how government tries to deal with unemployment and inflation. Second, we will devote a couple of classes to how the government budgetary process works. The annual budget is usually the most critical legislation any level of government produces and it's important to understand how this process works. Third, scattered throughout the syllabus are classes on particular government economic policies: health care, trade, and regulation. Fourth, we will look at how taxes and other revenues are raised. Next, we devote a couple of classes to the role of interest groups and the general public in economic policy making. Finally, we will study inequality and poverty in the U.S. Given the recent dramatic shift from national to state-oriented welfare policy, this is a timely and important topic.

In my biased opinion, this should be a class of interest to all of you. Unless you plan on becoming a hermit, you will be affected by economic policy throughout your life. I am quite capable of doing a lecture that will fill up each class period. However, the class will be a lot more interesting and we will all learn a lot more if as many students as possible are active participants in the class. This means coming to class, doing the readings -- on time -- and asking questions whenever something seems unclear or downright wrong to you.

**Grading**

There are two regular exams and a cumulative final exam. The first exam (Feb. 18) counts for 20 percent of your grade, the second (Apr. 1 – no fooling) counts 30 percent, and the final (May 4) counts as 35 percent. Fifteen percent comes from a paper assignment, to be discussed in detail in a separate handout. Although it is not an official part of your grade, student participation in class discussion is strongly encouraged and will be given due consideration for anyone near a grade cut-off point.

If you miss an exam you must provide a university-defined legitimate excuse in order to take a make-up. I am much more sympathetic about giving make-ups if you inform me in advance that you cannot take an exam on the assigned date.

Grades will be based on the following scale: 90-100=A, 80-89=B, 70-79=C, 60-69=D, below 60=E.

**Readings**

There are two required texts that should be available at the bookstores:

(Krugman is also on reserve at Young Library.)
There is also a coursepack of readings available at Johnny Print Copy Shop (across S. Limestone from the Business School). Coursepack readings are denoted by “CP” on the syllabus. Everything in the coursepack is also on reserve at Young Library.

You are responsible for doing the assigned readings before the relevant class time. The schedule of readings and topics is subject to change and any revisions will be noted in class. Note that some classes have no assigned readings, but others have a lot. Please budget your time accordingly.

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Reading</th>
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</thead>
<tbody>
<tr>
<td>1/14</td>
<td>Introduction</td>
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</tr>
<tr>
<td>1/19</td>
<td>A Brief and Practically Painless Review of Economics</td>
<td>Krugman: Preface – Chapter 1</td>
</tr>
<tr>
<td>1/21</td>
<td>Clifford Cobb et al, <em>If the GDP Is Up, Why Is America Down?</em> (CP)</td>
<td></td>
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<tr>
<td>1/26</td>
<td>A Brief but Oh So Dense Review of U.S. Government</td>
<td>James Madison, Federalist Papers 10 &amp; 51</td>
</tr>
<tr>
<td>1/28</td>
<td>1/26 continued</td>
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<tr>
<td>2/2</td>
<td>The Proper Role of Government???</td>
<td>Cohen: Chapters 1 &amp; 2.</td>
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<tr>
<td>2/4</td>
<td></td>
<td>Krugman: Chapter 8.</td>
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<tr>
<td>2/9</td>
<td></td>
<td>Krugman: Chapters 3 and 5.</td>
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<tr>
<td>2/9</td>
<td></td>
<td>Cohen: Chapter 6, Pages 67-73, 74-81.</td>
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<tr>
<td>2/11</td>
<td></td>
<td>Krugman: Chapter 7.</td>
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<tr>
<td>2/16</td>
<td>2/11 continued and review for Exam 1</td>
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<tr>
<td>2/18</td>
<td>* * * * EXAM 1 * * * *</td>
<td></td>
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<tr>
<td>2/23</td>
<td>The Budgetary Process</td>
<td>Video</td>
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<tr>
<td>3/2</td>
<td>Death and Taxes (Well, actually just taxes . . .)</td>
<td>Cohen: Chapter 7.</td>
</tr>
<tr>
<td>3/4, 3/9</td>
<td>Taxes, continued</td>
<td></td>
</tr>
<tr>
<td>3/11</td>
<td>Politics, the Public and the Economy</td>
<td>Cohen: Chapters 4 and 5</td>
</tr>
</tbody>
</table>
3/16, 18: Spring Break

3/23  Politics, the Public and the Economy, continued
       Cohen: Pages 221-33.

3/25  State and Local Issues
       John Chubb and Terry Moe, Choice Is a Panacea (CP)
       Bill Honig, Why Privatizing Public Educ. Is a Bad Idea (CP)

3/30  State and Local continued, review for exam 2

4/1       * * * * * EXAM 2 * * * * *

4/6  Trade
       Cohen: Chapter 13.
       Krugman: Chapters 4, 10, 11.

4/8  Health
       Krugman: Chapter 6.

4/13 Regulation
       Cohen: Chapters 10 & 11.

       Nicholas Economides, Competition & Vertical Integration in the Computing Industry. (CP)

4/20  Poverty, the Distribution of Wealth, and Welfare
       Krugman: Chapter 2.

       chapters 3 & 4 of The End of Equality (CP)

4/27  William Kelso, Chapters 1-3 of Poverty and the Underclass (CP)
       John Schwarz, The Hidden Side of the Clinton Economy (CP)

4/29  Review and Prospects
       Krugman: Chapters 15-17.
       Cohen: Chapter 14.

5/4     FINAL EXAM, Tuesday, 8:00 a.m.