Chapter 1 Review

Readings: Rosen: Chapter 1 all
       in-class handouts

Outline

I. What is Public Finance? Overview
   The study of government from an economic perspective
   A. What government does
   B. Economic perspective
II. How to View Government
   A. Organic view
   B. Mechanistic/Contract view
III. What Does Public Finance Study?
   A. Facts and figures about government (1)
   B. What should govt do? (2 & 3)
   C. Dealing with public goods and externalities (4 & 5)
   D. Decision making by political agents (6)
   E. Income transfer and security programs (7 - 10)
   F. Cost-Benefit analysis (11)
   G. Taxation (12 – 19)
IV. Organic vs Mechanistic View: an illustration
   U.S. Indian policy under the Congress of Confederation: 1783 – 1788
V. Getting to know U.S. Govt: (Fiscal) Federalism: the legal framework
   A. What is (fiscal) federalism?
   B. The legal framework in the U.S.
VI. Getting to know U.S. Govt: How big is government in the U.S?
   A. Measurement issues
   B. How Big is the U.S. (fed, state & local) Govt?
   C. U.S. govt compared to other nations
   D. U.S. govt. today compared to the past (4 decades)
   E. Fiscal federalism: the reality

Discussion Questions (pp 16 – 17)
   #’s 1 – 3
Practice Problems

1. • Explain/define the organic and mechanistic views of government. Which is the view of modern Public Finance?
   • Give an example of normative analysis under the organic view of government.
   • Give an example of normative analysis under the mechanistic view of government.
   • Give an example of positive analysis under the organic view of government.
   • Give an example of positive analysis under the mechanistic view of government.
   • Make sure you clearly explain how/why each of your examples illustrates the viewpoint it is supposed to.

2. • How big is government spending, as a percent of GDP, in the U.S.? Consider all types of government spending, not just federal.
   • In what ways, if any, does this measure overstate the size and influence of government in the U.S.? Is there an alternative measure that compensates for this? If so, what is its value?
   • In what ways, if any, does this understate the size and influence of government in the U.S.? Is there an alternative measure that compensates for this? If so, what is its value?
   • How does this (or these) measure(s) compare to other nations?
   • How does this (or these) measure(s) compare to the past four decades in the U.S.?

3. Robert Higgs wrote a book titled Crisis and Leviathan. In it he argues that government in America has grown during times of crises and, after the crises has past, fails to shrink back to its previous size. Discuss whether government has indeed grown in the past 4 decades. Is the federal government, the government most often viewed as a leviathan, responsible for this growth?

4. What is fiscal federalism? Give me some, no lots of, facts and figures (and numbers) on the state of fiscal federalism in the U.S. today.

5. Amanda Lovett, like most babies, is very interested in her environment … namely the Texas Government revenues and expenditures as compared to other states. Help Amanda out, explain to Tex the similarities and differences between Texas and other states.
   • How has the role of government changed over the past four (or so) decades? What does the government do more of, in relative terms, today than it did in the past? What does it do less of? Why might this be a cause for alarm? Why might one argue that there is no need for alarm?