

COURSE OUTLINE

1. Course Number and Name: Econ4000, Supply-Side Economics

Credits: 3

2. Course Description

Econ4000, Supply-side Economics, introduces students to the neo-classical view of the economy, as modernized and applied to public policy formulation by economists Robert Mundell, Arthur Laffer, Norman Ture, and others. The course shows how the neo-classical system is derived from the basic workings of the economy, beginning with the fundamental observation that income is the reward for the production of goods and services by people who supply labor and capital services. It describes how fiscal and regulatory policies affect the economy by altering incentives to supply labor and capital inputs, and by imposing or reducing obstacles to the production of goods and services. The course examines the appropriate uses of fiscal and monetary policies, and how to combine them to promote non-inflationary growth. It also explores the potential benefits of fundamental tax reform.

3. Course Goals

The course reviews the intellectual roots of supply-side economics, dating back to Adam Smith and Jean Baptiste Say. It discusses the growth of the supply-side movement in the 1970s, when the American economy was beset by simultaneous inflation and high unemployment, and shows why this “stagflation” was a situation that traditional Keynesian “demand-management” economics could neither explain nor cure. It explores the monetarist criticisms of the Keynesian model, but shows that, although the monetarists offered a solution to inflation, they provided no cure for anemic real growth, and no guidance for reforming fiscal policy. The course describes how supply-side economics offered a coherent analysis of the problem and a practical way out.

4. Course Learning Outcomes

This course explores the intellectual origins and the practical applications of a theory that transformed economic policies in many free-market economies during the last quarter of the 20th century. The theory still drives the design of tax structures and business regulation. Upon completion of the course, the student will be able to:

1. Explain the Philips Curve trade-off between inflation and unemployment
2. Distinguish between anticipated and unanticipated policy changes in terms of their effects on real variables
3. Define both statutory tax rates and effective tax rates
4. Evaluate the prospects for taxes and incentives and the efficient delivery of medical care if projected increases in Social Security and Medicare spending come to pass

5. Measure the “inflation tax” on important inputs and assets
6. Contribute to a debate about whether monetary policy has a permanent effect on real variables
7. Define the four basic principles of a good tax system
8. Compare the various major proposed tax systems and measure them against the basic principles of a sound tax system
9. Illustrate the effects of transfer payments on marginal incentives to work
10. Critique the argument that deficits are harmful to the economy
11. Compare the benefits and costs of business regulation

5. Course Concepts

1. The Phenomenon of Stagflation
2. The Distinction between Price Effects and Income Effects
3. Tax Incidence
4. Effects of Tax Rates on the Tax Base
5. A Flat Tax Proposal
6. Deregulation

6. Required Text: Gwartney, James D., Richard Stroup, and Russell S. Sobel, *Economics: Private and Public Choice* (Xtra! CD-ROM edition) Fort Worth: Southwestern Publishing Co. 10th ed., 2002. ISBN 0-03-034482-4.

Supply-side Economics Library: Selected readings assigned from a library of essays on available at: http://www.yorktownuniversity.com/grad_libraries_supply_side.cfm

A seminar on Supply-side Economics conducted by Yorktown University is located at http://www.yorktownuniversity.com/grad_supply-side.cfm. Students are expected to attend that seminar by listening to lectures by Stephen Entin, Steve Moore, George Gilder, Mark Skousen, and Alan Reynolds. The total time of the lectures is approximately four hours. Assignments for specific lectures are given in the session schedule below.

7. Additional Resources

The Library of Economics and Liberty <http://www.econlib.org/library/>
Tax Foundation <http://www.taxfoundation.org>
Hoover Institution <http://www.hoover.org>

Course Syllabus

Course Number: Econ4000

Course Name: Supply-Side Economics

Faculty: Steve Entin

Class Participation and Performance Requirements:

Students are ultimately responsible for participating in the course through the following academic activities: uploading assignments, posting to discussion topics, responding to instructor inquiries, submitting written papers and taking quizzes and exams. Students are expected to be involved in ongoing instructional activities based on the recommended schedule for course completion as detailed in the syllabus. In order to actively participate in a course, students must make contact with their faculty mentor on a regular basis through one of the following methods:

- Uploading weekly written discussion topic responses into the Discussion section of the course delivery system for grading by your Instructor.
- Participation in discussion threads with the instructor and other students.
- Posting of other assignments as identified by the course instructor.

Assessments:

1. Students are expected to respond to two of the posted discussion questions for each session. Responses should incorporate ideas from the readings and audio lectures. Responses should be approximately 500 words.
2. An essay assignment of 8 to 10 pages is also required. Topics must be selected in consultation with the instructor. The essay will be due at Session 10
3. The mid-term exam consists of 12 short-answer questions, some of which may include calculations based on tax rates. The exam will be taken after Session 5.
4. The final exam consists of 10 to 12 essay questions, taken at the conclusion of the course.

Assessment percentages:

Contributions to discussion topics	20%
Mid-term exam	20%
Essay assignment	30%
Final exam	30%

Academic Integrity

Available both in the student and faculty handbooks

Recommended Schedule for Course Completion

Session 1: The Breakdown of “Demand-Side” Economics in the Stagflation of the 1970s. The Keynesian model and its focus on the “income effect” of fiscal policies to affect demand by manipulating disposable income or government spending. The stagflation of the 1970s; the inability of a demand-driven Keynesian model to pose effective policy solutions to simultaneous inflation and unemployment. The monetarist and rational expectations assault on Keynesian analysis. The need for a new view of fiscal policy.

Assignments:

Required reading:

Stephen J. Entin. 2005. *The Economics of Taxation and the Issue of Tax Reform*. Introduction and Sections I – III
(PDF version of the text can be found in Lectures/Texts)

Gwartney et al:

Chapter 10, Working with Our Basic Aggregate Demand/Aggregate Supply Model

Chapter 11, Keynesian Foundations of Modern Macroeconomics

Chapter 12, Fiscal Policy, through page 273 (Fiscal Policy and the Crowding Out Effect)

Special Topic 7, The Phillips Curve

Discussion Questions

1. Discuss how the various government policy tools for managing the economy are all assumed in the Keynesian system to alter aggregate demand by one means or another.
2. The concept of a stable Phillips Curve depends on fooling some of the people all of the time. It broke down when inflation became so obvious that it was impossible to fool all of the people all of the time. Discuss the differences in perception between employers and workers, and the labor force rigidities, that underlie the Phillips curve concept, and discuss what happens to the Phillips curve if, in the longer run, expectations of inflation begin to catch up with the reality of inflation.

3. If all policy tools operate on aggregate demand, and none on supply conditions, is it possible to shift the Phillips curve “toward the origin”, that is, to have an arbitrarily low rate of both inflation and unemployment?

Learning Outcomes: 4.1

Session 2: The Supply-Side Restatement of Fiscal Policy. Emergence of supply-side theory based on “price effects” instead of “income effects” of policy changes. How fiscal policy and regulation affect output by affecting the supply of labor and capital, hence output and income, and (only then) demand. Supply enables demand (Says Law). Expanding real output at lower cost by reducing the tax and regulatory burdens on supply.

Lecture:

Audio from the Supply Side Seminar at

http://www.yorktownuniversity.com/grad_supply-side.cfm

1. Introduction by Dr. Richard Bishirjian (5 minutes)
2. Supply Side Economics, Say’s Law, and Economic Growth by Dr. Mark Skousen (45 minutes)

Assignments:

Required reading:

Stephen J. Entin. 2005. *The Economics of Taxation and the Issue of Tax Reform*. Sections IV-VII. Op.cit.

“Tax Incidence, Tax Burden, and Tax Shifting: Who Really Pays the Tax?”, Stephen J. Entin. IRET Policy Bulletin No. 88. IRET, Washington, DC, September 10, 2004. Available at <http://iret.org/pub/BLTN-88.PDF>

Gwartney et. al.

Chapter 4, pages 100 – 109: The Impact of a Tax; Tax Rates, Tax Revenues, and the Laffer Curve

Chapter 12, Fiscal Policy, pages 273 – 287: New Classical and Supply-Side Effects

Chapter 19, Demand and Consumer Choice, especially Price Changes and Consumer Choice and the Addendum on income and substitution effects.

Raymond J. Keating. *A Walk on the Supply Side*

<http://www.thefreemanonline.org/featured/a-walk-on-the-supply-side/>

Discussion Questions

1. Identical tax rates are imposed on two factors of production, each with different supply and demand elasticities. Under what circumstances will the impact on output be high or low? How would the deadweight losses

from imposing the tax differ in each case?

2. Assume that a set of fiscal policies can be found that operates on the supply of real resources, such that the aggregate supply of real resources can be increased or decreased. Also assume that an anticipated monetary policy stance primarily affects nominal aggregate demand, rather than real output. What sort of policy mix would shift the Phillips curve toward the origin, i.e., lower inflation and promote real growth simultaneously?

Learning Outcomes: 4.2

Session 3: Types of taxes, tax rates, and the structure of the current tax system.

Marginal tax rates, average tax rates, and lump sum taxes; flat and graduated tax rates. What matters for incentives. Personal and corporate income taxes, payroll taxes, estate and gifts taxes, tariffs, and excises. The AMT. Inflation and the tax system. How the definition of the tax base affects the tax rate.

Lecture:

Audio from the Supply Side Seminar

http://www.yorktownuniversity.com/grad_supply-side.cfm

1. Principles of Supply Side Economics by Stephen Entin (45 minutes)
2. Critics of Supply Side Economics by Alan Reynolds (45 minutes)

Assignments:

Required reading:

Stephen J. Entin. 2005. *The Economics of Taxation and the Issue of Tax Reform*. Sections VIII-IX. Op.cit.

Gwartney et al:

Special Topic 1: Government Spending and Taxation, pages 651 – 660.

Michael Schuyler. *Phase-Outs Increase Tax Rates and Tax Complexity*, IRET Policy Bulletin No. 83. IRET, Washington, DC, March 12, 2001.

Available at

<http://iret.org/pub/BLTN-83.PDF>

Stephen J. Entin. *Tax Indexing*

http://www.yorktownuniversity.com/grad_libraries_supply_side.cfm

Andrew Chamberlain and Patrick Fleenor. *Backgrounder on the Individual Alternative Minimum Tax*. Tax Foundation Washington, DC, May 24, 2005

<http://www.taxfoundation.org/>

Discussion Questions

1. In the 1970s, as people came to correctly anticipate inflation, aggregate demand and supply rose together, and higher inflation did not reduce

unemployment. In fact, unemployment got worse and output growth slowed over time. Why? What happened to marginal tax rates and the tax “wedge” in Chapter 4 as wages kept pace with prices? What affect did the changes in the tax wedge have on the supply of labor, and on the relative rates of change of the aggregate demand and supply curves? How does this relate to the issue of stagflation?

2. How does inflation affect the tax “wedge” on capital?

Learning Outcomes: 4.3

Session 4: U.S. Historical Examples: Historical tax changes can be analyzed in terms of their impact on marginal tax rate and incentives, and their effect on the economy noted.

Assignments:

Required reading:

Arthur B. Laffer. *The Laffer Curve: Past, Present and Future*. Laffer Associates
http://www.yorktownuniversity.com/grad_libraries_supply_side.cfm.

Paul Craig Roberts. *My Time with Supply-Side Economics*. VDARE.com. January 7,2003.
http://www.vdare.com/asp/printPage.asp?url=http://www.vdare.com/roberts/supply_side.htm

Discussion Questions

1. In what ways did the design of the 1964 tax cut have any (unintentional) supply-side effects?
2. What are the price effects and the income effects of tariffs and other trade restrictions?

Learning Outcomes: 4.2

Session 5: Price effects of transfer payments and government spending. Transfer payments and government spending on goods and services should be analyzed in terms of their effects on prices and incentives rather than how they affect “disposable income”. The recent rise in government spending has diverted significant resources to the public sector. The projected rapid growth of transfer payments spells trouble for the long term.

Lecture:

Audio from the Supply Side Seminar at

http://www.yorktownuniversity.com/grad_supply-side.cfm

Supply Side, Public Finance, and Politics by Steve Moore (45 minutes)

Assignments:

Required reading:

Gwartney, et al:

Special Topic 3, The Economics of Social Security

Special Topic 8, The Economics of Health Care

Summary sections of the 2008 Annual Report of the Boards of Trustees of the Old Age and Survivors Insurance and Hospital Insurance Trust Funds.

<http://www.ssa.gov/OACT/TRSUM/trsummary.html>

Stephen J. Entin. *Statement, Hearing on Protecting and Strengthening Social Security*, IRET Congressional Advisory No. 189. IRET, Washington, DC, 2006.

<http://iret.org/pub/ADVS-189.PDF>

Discussion Questions: A demographic juggernaut threatens a Social Security and Medicare explosion. Discuss:

1. The income and incentive effects of Social Security benefits, the “earnings test”, and Medicare on work and saving? Does the promise of future benefits makes people feel less need to work, save?
2. Prospects for sharply higher taxes in the future if benefit growth is not slowed. Taxes levied to support transfer system reduce ability to save, damage growth, and make keeping the promises that much harder.
3. Positive growth and incentive effects of personal retirement accounts and consumer choice in health care.

Learning Outcomes: 4.4, 4.9

Mid-term Examination

Session 6: Monetary policy and the goal of non-inflationary growth; capital flows, and exchange rates. The key objectives of the Federal Reserve in the conduct of monetary policy are to maintain price stability and minimize market risk. Monetary policy should not be used to drive growth by stimulating “demand”.

Assignments:

Required reading

Gwartney, et.al.

Chapter 14, Modern Macroeconomics: Monetary Policy

Robert A. Mundell. *A Reconsideration of the Twentieth Century*. Nobel Foundation, 1999. See especially Section III.

http://www.yorktownuniversity.com/grad_libraries_supply_side.cfm

Alan Reynolds. *The Fiscal-Monetary Policy Mix*. Cato Journal, Vol. 21,

No. 2 (Fall 2001) Cato Institute, Washington, DC.
http://www.yorktownuniversity.com/grad_libraries_supply_side.cfm

Discussion Questions

1. Discuss the impact on the economy of an unannounced and unexpected increase in the growth rate of the money supply, long run and short run. Contrast this with an announced and anticipated change.
2. If the government wished to reduce or increase the foreign exchange value of its currency, what policy steps would it have to take? If those steps are in the area of monetary policy, what would be the impact of the devaluation or revaluation on the domestic price level, wages, and other production costs? How much would real relative prices change across borders? State your assumptions clearly.

Learning Outcomes: 4.5, 4.6

Session 7: Tax Reform Part A - Reform Principles and the Ideal Tax Base. A flawed tax system is retarding GDP, incomes, and employment. How can it be fixed? How much might a fully reformed tax system affect growth, incomes, jobs?

Assignments:

Required reading:

Stephen J. Entin. 2005. *The Economics of Taxation and the Issue of Tax Reform*. Sections X-XI.

Op. cit.

2009 Economic Report of the President, Chapter 3: Pro-Growth Tax Policy. <http://www.gpoaccess.gov/eop/>

Discussion Questions

1. Explain the non-neutrality of the current income tax between saving and consumption, and how it is "biased" against saving and investment. How it ignores saving as a cost of earning future income. How it places multiple layers of tax on income used for saving and investment, one on income used for consumption.
2. Explain why the "consumption" or "consumed-income" taxes are "neutral" between income used for saving and investment, and a better measure of income to boot. Examine the steps needed to eliminate the income tax biases against saving and investment: ending the estate and gift tax, taxing corporate income only once, giving all saving "neutral" pension-type treatment, and expensing capital outlays.

Learning Outcomes: 4.7

Session 8: Tax Reform Part B – Looking at the Major Proposals. The President's Advisory Panel on Fundamental Tax Reform examined a streamlined income-based tax and more fundamental reforms that moved toward a consumption base. Academics have written, and Members of Congress have introduced, various versions of a neutral tax. Versions of neutral taxes include flat rate consumed-income, value-added, or national sales taxes, and the Hall-Rabushka "Flat Tax".

Assignments:

Required reading:

Analysis of Tax Reform Panel Proposals (Parts 1-3), Stephen J. Entin. IRET Congressional Advisory No. 198. IRET, Washington, DC, 2006.
<http://iret.org/pub/ADVS-209.PDF>
<http://iret.org/pub/ADVS-213.PDF>

The President's Advisory Tax Panel on Federal Tax Reform. 2005. *Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System* (U.S. Government Printing Office) or at
http://goliath.ecnext.com/coms2/gi_0199-6461154/Simple-Fair-and-Pro-Growth.html

Discussion Questions

1. What are some of the attributes of a good tax system? Define terms carefully. What trade-offs may be necessary among these? Which reinforce one another?
2. Explain the broad equivalence of the the tax bases of the various saving-consumption neutral tax systems. Explain the key distortions introduced by the income tax.
3. What are the major differences among the saving-consumption neutral systems?

Learning Outcomes: 4.8, 4.9

Session 9: Deficits, Growth, and Inflation. This section will address concerns about supply-side fiscal policy and tax reform stemming from the viewpoints of older models of the economy and the financial markets.

Assignments

Required reading:

Stephen J. Entin. 2005. *The Economics of Taxation and the Issue of Tax Reform*. XII-XIII

"Deficits, Tax Cuts, Interest Rates and Investment", Part 1 and Part 2. Paul Evans, Ph.D. and Stephen Entin. IRET Congressional Advisories

No. 139 and 140. IRET, 2002. Available at
<http://iret.org/pub/ADVS-139.PDF>
<http://iret.org/pub/ADVS-140.PDF>

Discussion Questions

1. Do deficits drive the economy or does the economy drive the deficit?
2. What are the primary determinants of the interest rate? Does the deficit affect any of them? How?
3. Discuss the effects of the deficit on national saving and growth. In what sense does the deficit reduce national saving? Discuss how steps to reduce the deficit would affect private, government, and national saving. Make clear what you are holding constant and what you are allowing to vary.

Learning Outcomes: 4.10

Session 10: The Regulation "Wedge". Government regulation creates a cost "wedge" and inefficiencies that reduce GDP. Historical cases of the advantages of deregulation -
- deregulation of airlines; deregulation of trucking, "just in time" delivery.

Lecture:

Audio from the Supply-Side Seminar

http://www.yorktownuniversity.com/grad_supply-side.cfm

Supply Side Economics and the Spirit of Enterprise by George Gilder (45 minutes)

Assignments:

Required reading:

Dividends of Deregulation, John Hood. Policy Review, Hoover Institution, Stanford University.

<http://www.hoover.org/publications/policyreview/3573537.html>

Discussion Questions

1. OMB is required to report on the paperwork burden of government regulations, but not on the broader economic consequences. Discuss how much benefit a regulation must offer if it is to provide a net gain to the national welfare.
2. How can economic growth also lead to improved environmental quality?

Learning Outcomes: 4.11

Essay Assignment Due

Final Examination