Course Information
Course: SPEA V186 – Introduction to Public Budgeting and Finance for Public Affairs
Semester: Fall 2017
Class Times: XXX
Classroom: XXX
Office Hours: XXX.

Contact information
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Office: SPEA 375F
Phone:1 - 812 - 855 - 7493
Email: duncande@indiana.edu

Course description
The public and non-profit sectors play important roles in society. Together, they provide resources and produce goods and services that are crucial for a well-functioning society. However, fulfilling this role requires solid plans that encompass what will be produced, how it will be financed, and how it will be accounted for. This course explores these questions.

We first explore the budgetary process that governs spending (which goods and services will be financed). Next we walk through the various revenue sources that are used to finance the goods and services. Finally, we study the accounting documents that are used to record financial activities in the public and non-profit sectors. The course will use a lot of practical applications including real budgets, tax forms and accounting documents to convey useful information to students. Comparisons to the for-profit sector are made throughout to emphasize some of the key features of the not-for-profit sectors.

Course context:
This course will set the stage for your SPEA degree. As a graduate of SPEA, we expect every student to have a solid understating of how revenues are sourced and how expenditures are determined in the public and non-profit sectors. This course is the starting point for acquiring this knowledge, and it will play a critical role in your ability to get through upper level courses.

Learning outcomes:
Students should be able to do the following at the end of this course:

1. Describe the budgetary process.
2. Identify and describe the main types of spending functions in the public and non-profit sectors.
3. Identify and describe the main revenue sources in the public and non-profit sectors.
4. Identify and distinguish between debt and deficit and explain when/why both are a reasons for concern.
5. Identify and read public and non-profit sector financial documents.
6. Demonstrate an understanding of the basic tools of financial analysis.
7. Explain the role the federal reserve in the US economy.
8. Have a working knowledge of how to use spreadsheets.

Course Materials
**Reading Assignments:** Additional readings will be posted on Canvas as needed and will be strongly influenced by current events relevant to the course.

**Teaching and Learning methods**
The course will be delivered via face-to-face lectures. Your understanding of the course material will be determined via assignments, quizzes, and exams. The quizzes will be graded, but will not contribute to your final course grade.

**Virtual Math Advancement program (VMAP)**
Some sections of V186 will require a basic understanding of several mathematical concepts. The working assumption is that you understand and know how to apply these concepts. You are strongly encouraged to utilize VMAP to refresh your math skills if you believe you are not able to keep up with the math requirements. A link to VMAP is provided on the canvas site.

**Canvas Announcements**
Important announcements are distributed through Canvas and/or email. You should check your IU email and the canvas inbox regularly.

**Policy on use of electronic devices.**
You are not permitted to use your cellphone during class unless expressly instructed by your instructor. Laptops and tablets maybe used in class to take notes. The use of electronic devices in class generally leads to negative externalities. For example, your computer might distract other students who would otherwise prefer to focus on the lecture.

I strongly encourage you to print out the lectures and take them to class. You can make your notes on the outline.

**Attendance**
Life is full of trade-offs. Another way of stating this rather obvious fact is that there is no such thing as a free lunch. You will receive an attendance endowment of 3 days. Each missed class costs 1 percentage point of your final course grade, but you can pay for these points using your attendance endowment days. You will have to pay for any additional missed class out of your course grade once your endowment has been exhausted. **I will apply your endowment days to genuine emergencies for which I am notified prior to the missed class.** For example, suppose you decide to skip three classes at the beginning of the semester because you wanted extra sleep and then miss three classes later in the semester because of the flu. In this case your endowment days would be applied to the three classes missed because of the flu, and you would lose three percent of the course grade for the remaining three missed classes.

Below are some illustrations that ought to help you understand the nature of the trade-off that you face.

A. **Illustration A:** Suppose you finish the semester with a perfect attendance record. In this case you get to keep all of your endowment days, and your course grade is unaffected.

B. **Illustration B:** Suppose you finish the semester with 3 missed classes. In this case you incur a cost of 3 percentage points, which you must pay for with your 3 endowment days. Therefore, your course grade is unaffected.
C. *Illustration C:* Suppose you finish the semester with 5 missed classes. In this case you incur a cost of 5 percentage points, which you must pay for with a combination of 3 endowment days and 2 percentage points of your course grade. For example, if you score maximum points on all course work (homework, exams and term paper) for a total of 100%, you will have to trade away 2 percentage points for a final course grade of 98%.

D. *Illustration D:* Suppose you finish the semester with 10 missed classes. In this case you incur a cost of 10 percentage points, which you must pay for with a combination of 3 endowment days and 7 percentage points of your course grade. For example, if you score maximum points on all course work (homework, exams and term paper) for a total of 100%, you will have to trade away 7 percentage points for a final course grade of 93%.

<table>
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<tr>
<th>Number of missed classes</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
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<tbody>
<tr>
<td>Percentage points</td>
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<td>-4</td>
<td>-5</td>
<td>-6</td>
<td>-7</td>
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Note: This is not an exhaustive list. You can miss more than 10 classes, but that means you will be trading away more points. For example, missing the whole semester will cost you approximately 25 percentage points.

Late Assignments
All assignments must be submitted via Canvas. As with attendance, you may trade points for late submissions. Each minute that your assignment is late costs 1% of the grade for the assignment in question. For example, suppose assignment 1 is worth 50 points and you submit it 30 minutes late. In this case, the maximum grade you can get on assignment 1 is 35/50.

Make-Up Exams
Make-up exams are only allowed under very extraordinary circumstances and must be supported by written evidence. The definition of an *extraordinary circumstance* is solely at the discretion of the instructor.

Special Needs:
Please let the instructor know by the first week of classes if you have any special needs. If you are a person with a disability and anticipate needing any type of accommodation in order to participate in this class, please advise me and make appropriate arrangements with Disability Services (855-7578).

Academic Misconduct and General Academic Policies
Cheating and plagiarism are forms of academic dishonesty that cannot be tolerated in university education. Definitions of various types of academic misconduct and University policies for dealing with violations are included in the *Code of Student Ethics*. Please refer to [http://studentcode.iu.edu/responsibilities/academic-misconduct.html](http://studentcode.iu.edu/responsibilities/academic-misconduct.html) for more information. Any student found cheating or plagiarizing will receive a failing grade for the course.

Social Justice:
Indiana University is committed to social justice. I concur with that commitment and expect to maintain a positive learning environment based upon open communication, mutual respect, and non-discrimination. Our University does not discriminate on the basis of race, sex, age, disability, veteran status, religion, sexual orientation, color, or national origin. Any suggestions as to how to further such a positive and open environment in this class will be appreciated and given serious consideration.
## Grading

Your Final Grade in the Course will be based on:

1. 10 Problem Sets: worth 30% of your final grade
2. Quizzes: worth 10% of final grade
3. 3 Exams:
   a. Midterm-Exam 1 worth 20%,
   b. Midterm-Exam 2 worth 20%,
   c. Final-Exam worth 20%,

<table>
<thead>
<tr>
<th>Final Grade Range</th>
<th>&gt;= 97%</th>
<th>97% &gt; x &gt;= 93%</th>
<th>93% &gt; x &gt;= 90%</th>
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<td>A-</td>
<td>B+</td>
<td>B</td>
<td>B-</td>
<td>C+</td>
<td>C</td>
<td>C-</td>
<td>D+</td>
<td>D</td>
<td>D-</td>
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Note: No Rounding will be employed.
<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Lecture Topics</th>
<th>Due dates (Assignments)</th>
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<tbody>
<tr>
<td><strong>January</strong></td>
<td></td>
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<tr>
<td>1</td>
<td>7</td>
<td>Lecture 1 – Introduction and Three Sector Model</td>
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<tr>
<td>1</td>
<td>9</td>
<td>Lecture 2 – Institutional Failures</td>
<td></td>
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<tr>
<td>2</td>
<td>14</td>
<td>Lecture 3 – Budget types and institutions</td>
<td>Quiz 1</td>
</tr>
<tr>
<td>2</td>
<td>16</td>
<td>Lecture 4 – Role of laws and policy makers</td>
<td>HW1 due</td>
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<td>21</td>
<td>Martin Luther King Jr. Day (No class)</td>
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<td>3</td>
<td>23</td>
<td>Lecture 5 – Budget process</td>
<td>HW2 due</td>
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<tr>
<td>4</td>
<td>28</td>
<td>Lecture 6 – Budget process</td>
<td>Quiz 2</td>
</tr>
<tr>
<td>4</td>
<td>30</td>
<td>Lecture 7 – Types of spending</td>
<td>HW3 due</td>
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<td><strong>February</strong></td>
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<tr>
<td>5</td>
<td>4</td>
<td>Lecture 8 – Types of spending: Agencies/Functions</td>
<td>Quiz 3</td>
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<tr>
<td>5</td>
<td>6</td>
<td>Lecture 9 – Types of spending: Functions</td>
<td>HW4 due</td>
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<td>11</td>
<td>Review for Exam</td>
<td>Quiz 4</td>
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<tr>
<td>6</td>
<td>13</td>
<td>Exam #1 (Lectures 1 to 9)</td>
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<tr>
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<td>Lecture 10 – Tax systems</td>
<td>Quiz 5</td>
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<td>Lecture 11 – Income taxes</td>
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<td>25</td>
<td>Lecture 12 – Income/Consumption taxes</td>
<td>Quiz 6</td>
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<tr>
<td>8</td>
<td>27</td>
<td>Lecture 13 – Consumption taxes</td>
<td>HW5 due</td>
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<tr>
<td><strong>March</strong></td>
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<tr>
<td>9</td>
<td>4</td>
<td>Lecture 14 – Wealth taxes</td>
<td>Quiz 7</td>
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<tr>
<td>9</td>
<td>6</td>
<td>Lecture 15 – Other revenue sources</td>
<td>HW6 due</td>
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<tr>
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<td>18</td>
<td>Lecture 16 – Criteria for tax analysis</td>
<td>Quiz 8</td>
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<tr>
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<td>20</td>
<td>Lecture 17 – Criteria for tax analysis</td>
<td>HW7 due</td>
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<td>12</td>
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<td>Lecture 18 – Debt and deficit</td>
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<tr>
<td>12</td>
<td>27</td>
<td>Lecture 19 – Unfunded liabilities</td>
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<td><strong>Spring Break</strong></td>
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<td>Review for Exam</td>
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<td>13</td>
<td>3</td>
<td>Exam #2 (Lectures 10 to 19)</td>
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<tr>
<td>14</td>
<td>8</td>
<td>Lecture 20 – Accounting standards and concepts</td>
<td>Quiz 9</td>
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<tr>
<td>14</td>
<td>10</td>
<td>Lecture 21 – Types of accounting</td>
<td>HW8 due</td>
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<td>15</td>
<td>Lecture 22 – Financial Statements</td>
<td>Quiz 10</td>
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<tr>
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<td>17</td>
<td>Lecture 23 – Financial Statements</td>
<td>HW9 due</td>
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<tr>
<td>16</td>
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<td>Lecture 24 – Financial Analysis</td>
<td>Quiz 11</td>
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<td>24</td>
<td>Lecture 25 – Financial Analysis</td>
<td>HW10 due</td>
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<td>17</td>
<td>29th to 3rd</td>
<td>Exam #3 (Lectures 20 to 25)</td>
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Notes: *Topics are Tentative, but due dates and assignments are not. The instructor reserves the right to change this syllabus as time and circumstances dictate. Necessary changes will be announced in class in advance when possible.
I. MODULE I: Institutional failures and the need for public/non-profit sectors (2 Lectures)
   A. Private sector
   B. Public and Non-profit sectors
   C. Institutional failures

Overview: This section will identify the three main sectors that provide the goods and services that are consumed by society. We will identify and briefly explain the institutional failures that are used to justify the existence of the public sector.

Learning objectives: students should be able to do the following at the end of this Module:
   1. Identify the three sectors of the economy including their similarities and differences.
   2. Identify the institutional failures that are used to justify the existence of the public sector.

Reading

Assessment:
   1. 1 GRADED assignment
   2. Exam #1
II. MODULE II: Budgeting (7 Lectures)

A. Definitions and Types (0.5 Lectures)
   1. Operating and Capital budgets

B. Role of Institutions (0.5 Lectures)
   1. CBO and OMB
   2. GAO and Others

C. Role of Laws that govern the budgetary process (0.5)

D. Role of policy makers (1 Lecture)
   1. Executive branch
   2. Congress
      a) Budget committee
      b) Appropriations committee
      c) Ways and Means committee
      d) Finance committee
      e) Other committees (e.g., Authorization)

E. Budget processes (2 Lecture)
   1. Preparation
   2. Deliberation
   3. Execution
   4. Audit

F. Spending (2.5 Lectures)
   1. Mandatory vs Discretionary
   2. Functions vs Departments

Overview: This section will provide a fairly broad overview of the budget process. We will cover some details on the types of budgets that are prepared and how they are organized. Students will also learn about the institutions that participate in and the laws that govern the budgetary process at the state and federal level. The role of the various branches of government will also be explained, including a discussion of the various committees that play a role in the budgetary process. We will cover the budgetary process from preparation to audit, and then discuss where the money goes. Our discussion of spending will provide basic understanding of the main spending functions (e.g., social security, healthcare, defense, and education). Future courses will dig deeper into the administrative details (V374) and the behavioral impacts (V371) of these programs.

Learning objectives: students should be able to do the following at the end of this Module:

1. Explain what a budget is and describe its functions.
2. Identify and describe the federal committees, institutions and laws that govern the budgetary process in the US.
3. Describe the stages of the budget processes at federal, state, and local level.
4. Identify the similarities and differences between the public and non-profit budget processes.
5. Identify some of the key differences between budgeting in the US and other countries (e.g., balanced budget requirements; parliament versus federalist countries).
6. Identify the main spending by function and agency.
7. Distinguish between mandatory and discretionary spending.
8. Basic understanding of the federal reserve and its role in the US economy.

**Reading:**

**Assessment:**
1. 3 GRADED assignments
2. Exam #1

**III. MODULE III: Revenue sources (10 Lectures)**
A. Taxes (4 Lectures)
   1. *Income taxes:*
      a) Personal income tax
      b) Corporate income tax
   2. *Consumption tax*
      a) Retail sales tax
      b) Value added tax
   3. *Wealth taxes*
      a) Property tax
      b) Estate taxes/Gift taxes
B. Other revenue sources (2 Lectures)
   1. *User-charges and fees*
   2. *Grants/ Inter-governmental transfers*
   3. *Bonds*
   4. *Donations*
   5. *Fund raising*
C. Cannons of a good tax (equity, efficiency, adequacy etc.) (2 Lecture)
D. Debt and deficits and unfunded liabilities (2 Lectures)

**Overview:** This section will cover all of the major revenue sources available to the public and non-profit sectors. We will cover the major taxes on income, consumption and wealth as well as some of the more common non-tax revenues. These discussions will include some basic details of tax administration and will describe the cannons of a good revenue source. We will also
define and discuss debt and deficit, and cover some of the issues related to long-term unfunded liabilities affecting a number of states.

**Learning objectives**: students should be able to do the following at the end of this Module:
1. Identify the main revenue sources in the public and non-profit sectors.
2. Describe how the revenue sources work (e.g., how is income tax liability determined?).
3. Give a general overview of how revenue sources are administered (e.g., income tax administered with withholding, third-party reporting and end of year reconciliation).
4. Identify and explain, in basic terms, the cannons of a good tax (revenue sources).
5. Define debt and deficit and distinguish between them.
6. Explain how debt and deficit arise and provide a general overview of their policy implications.

**Reading:**

**Assessment:**
1. 3 GRADED assignments
2. Exam #2
IV. MODULE IV: Financial Reporting (4 Lectures)

A. Accounting standards and concepts (1 Lecture)
   1. FASB and GASB
   2. Revenues and Expenses
   3. Equity, Assets, and Liabilities

B. Types of accounting (1 Lectures)
   1. Accrual and Modified accrual
   2. Cash accounting
   3. Fund accounting

C. Financial statements (2 Lectures)
   1. Balance sheet
   2. Profit and loss
   3. Reconciling statements
   4. CAFR
   5. Cash budgets

Overview: This section will introduce students to the financial documents used/required in the public/non-profit sectors. We will cover some basics about the accounting standards that govern accounting practices in the public and non-profit sectors. This will be followed by an introduction to accounting concepts and types of accounting; special emphasis will be placed on fund accounting. Finally, we will identify and work our way through several financial documents that are commonly used in the public/non-profit sectors. The material you cover in this module will feature in subsequent account courses: V246, V346 and V356.

Learning objectives: students should be able to do the following at the end of this Module:
   1. Identify basic accounting concepts and types of accounting
   2. Identify and read financial statements commonly used in the public and non-profit sectors.
   3. Identify and explain the general accounting standards that govern accounting practices in the public and non-profit sectors.

Reading:

Assessment:
   1. 2 GRADED assignments
   2. Exam #3
V. MODULE V: Financial analysis (2 lectures)
   A. Interest rate and time value of money
   B. Present value and Future value
   C. Annuity
   D. Amortization
   E. Applications

Overview: Objective here is to introduce students to interest rates and the time value of money. Some discussion of why this is important and some applications will be included. However, the real applications will be left for V361. These concepts will also feature in accounting courses (V246, V346 and V356).

Learning objectives: students should be able to do the following at the end of this Module:
   1. Explain the concept of time-value-of money
   2. Find present and future value of money
   3. Explain when and how to use these concepts in financial analysis.

Assessment:
   1. 1 GRADED assignments
   2. Exam #3