

Public Economics 607
Professor C. Ellis.
Winter Term 2014.

This class will be divided into two parts. The first four weeks will be the conventional public economics of public goods and externalities, and will follow a lecture format. Weeks 5-10 will be on topics in political economy and will involve in-class presentations by students.

Assessment will be based on students' in-class presentations.

Useful texts

Varian - Microeconomic Analysis

Atkinson and Stiglitz – Lectures on Public Economics

Laffont – Fundamentals of Public Economics

Cornes and Sandler - The Theory of Externalities, Public Goods, and Club Goods

Ellis – Lecture notes

Weeks 1-4: Conventional Public Economics.

1. Competitive Equilibrium and Welfare

a. Competitive equilibrium, Pareto efficiency and the fundamental theorems of welfare economics.

Varian chpt. 17.

Cornes and Sandler Chpts. 1 and 2.

Atkinson and Stiglitz Chpt. 11.

My notes Chpt 1.

b. Efficiency and Social Welfare

Varian Chpt. 22

Atkinson and Stiglitz Chpt. 11.

My notes chpt 1.

c. Failures of the Fundamental Theorem

Cornes and Sandler Chpts. 1, 2, 3 and 4.

Atkinson and Stiglitz Chpt. 11.

Laffont Chpt. 1.

Hurwicz (1999), "Revisiting Externalities" Journal of Public Economic Theory.

Starrett (1972), "Fundamental Non-convexities in the Theory of Externalities,"

Journal of Economic Theory.
My notes Chpt. 1.

2. Public Goods and Public Good Provision Mechanisms.

a. Basics.

Oakland (1987), "Theory of Public Goods," Chapter 9, Handbook of Public Economics, vol 2.
Cornes and Sandler, Chpt. 6
Varian chpt. 23.
Atkinson and Stiglitz Chpt. 16.
My notes Chpt. 2.

b. Lindahl and Majority Voting

Cornes and Sandler, Chpt 7..
Varian chpt. 23.
Atkinson and Stiglitz Chpt. 16.
My notes Chpt. 2.

c. Preference Revelation Mechanisms.

Groves and Ledyard (1977a) "Optimal Allocation of Public Goods: A Solution to the 'Free Rider' Problem" Econometrica.
Groves and Ledyard (1977b) "Some Limitations of Demand Revealing Processes" Public Choice.
d'Aspremont and Gerard-Varet (1979), "Incentives and Incomplete Information," Journal of Public Economics.
Varian Microeconomic Analysis Chpt. 23
My notes Chpt. 2.

d. Private Provision (we won't have lectures on this but read it if you are interested)

Bergstrom, Blume and Varian (1986), "On the private provision of public goods," Journal of Public Economics
Bliss and Nalebuff (1984), "Dragon Slaying and Ballroom Dancing: The Private Supply of a Public Good," Journal of Public Economics.
Andreoni, (1990), "Impure Altruism and Donations to Public Goods: A Theory of Warm Glow Giving," Economic Journal.
Harbaugh (1998), "What do Donations Buy?" Journal of Public Economics.
Andreoni, and Bergstrom (1996), "Do Government Subsidies Increase the Private Supply of Public Goods?" Public Choice
Varian, (1994), "Sequential Contributions to Public Goods," Journal of Public

Economics.

Bilodeau and Slivinski (1996), "Toilet Cleaning and Department Chairing: Volunteering a Public Service," Journal of Public Economics.

Bilodeau and Slivinski, (1997) "Rival Charities," Journal of Public Economics.

Morgan (2000), "Financing Public Goods with Lotteries," Review of Economic Studies.

3. Externalities

a. The general problem of externalities.

Cornes and Sandler Chpts. 1, 2, 3 and 4.

Laffont Chpt. 1.

Hurwicz (1999), "Revisiting Externalities" Journal of Public Economic Theory.

Starrett (1972), "Fundamental non-convexities in the theory of externalities," Journal of Economic Theory,

Varian Chpt. 24.

My notes Chpt. 3

b. Solutions.

Baumol (1972), "Taxation and the Control of Externalities," American Economic Review.

Varian Chpt. 24.

Groves and Loeb (1975), "Incentives and Public Inputs," Journal of Public Economics.

Guttman and Schnytzer (1992) "A Solution to the Externality Problem using Strategic Matching" Social Choice and Welfare.

Varian (1994) "A Solution to the Externality Problem when Agents are Well Informed" American Economic Review.

Ellis and van den Nouweland (2003) "A Mechanism for Inducing Cooperation in Non-Cooperative Environments: Theory and Applications" Journal of Public Economic Theory.

My notes Chpt. 3.

Weeks 5-10: Political Economy Topics

1 Lawlessness and Economics

Dixit (2007), "Lawlessness and Economics: Alternative Modes of Governance".
Garfinkel and Skaperdas (2007), "Economics of Conflict an Overview", Handbook of Defense Economics, eds. Sandler and Hartley.

2. The Size and Number of Nations

Alesina and Spolaore (1997), "On the Size and Number of Nations", Quarterly Journal of Economics.
Bolton and Roland (1987), "The Break up of Nations: A Political Economy Analysis", Quarterly Journal of Economics.
Myerson (2006), "Federalism and the Incentives for Success in Democracy", Quarterly Journal of Economics.

3. The Origins of Democracy

Acemoglu and Robinson (2000), "Why did the West Extend the Franchise? Democracy, Inequality and Growth in Historical Perspective" Quarterly Journal of Economics.
Lizzeri and Persico (2004), Why did Elites Extend the Suffrage? Democracy and the Scope of Government, with an Application to Britain's "Age of Reform".

4. Voting and Elections

Grossman and Helpman (2001), "Special Interest Politics", Chpts. 2 and 3.
Besley and Coate (1997), "An Economic Model of Representative Democracy", Quarterly Journal of Economics.
Osbourne and Slivinski (1996), "A Model of Political Competition with Citizen Candidates", Quarterly Journal of Economics.

5. Lobbying

Grossman and Helpman (2001), "Special Interest Politics", Chpts. 4.
Bernheim and Whinston (1986), "Menu Auctions, Resource Allocation, and Economic Influence" Quarterly Journal of Economics
Dixit, Grossman, and Helpman (1997), "Common Agency and Coordination: General Theory and Application to Government Policy Making," Journal of Political Economy.

6. Corruption

Schleifer and Vishny (1993), "Corruption", Quarterly Journal of Economics.
Aidt (2003), "Economic Analysis of Corruption: A Survey", The Economic Journal.