

University of Guelph
College of Management and Economics
Department of Economics and Finance

Econ 6400 Public Economics

Winter 2012

Instructor: Johanna Goertz

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Office Hours: Tues, Thurs 9-10am

Lectures

Monday, Wednesday 11:30am-12:50pm

MacK 059

It is your responsibility as a student to be aware of and to abide by the University's policies regarding academic misconduct, e-mail communication, maintaining copies of out-of-class assignment, what to do when you cannot meet a course requirement, and the drop date for this semester. To better understand these policies, visit:

<http://www.economics.uoguelph.ca/student-responsibilities-policies.asp>

Course Description

This course will provide students with an overview of the systematic study of the public sector. We will look at the public sector from many different angles, and study topics such as public goods, externalities, income redistribution and taxation, elections, politicians, legislative bargaining, parties, and interest groups.

More than provide an exhaustive overview of the field of public economics, this course is designed to familiarize students with methods used to study this field and to get into the habit of reading academic journal articles.

Students are required to have solid background knowledge of microeconomic theory.

Course Materials:

The required course materials are lecture notes and required readings. The **required** readings consist of **some** of the journal articles (**indicated by a ***) in the course outline below. They can be found using www.jstor.org or the university library website. All other necessary materials will be provided.

Requirements and Grading

Student Presentation	20%	(To be presented in Week 6)
2 Paper Reports	20%	
Midterm	30%	(Week 7, date, time, and room TBA)
Final	30%	(Date, time, and room TBA)

Student Presentation

Students will give presentations on Social Programs in Canada, and prepare an information sheet for the class. All presentations will be in Week 6. More information will be handed out separately.

Paper Reports

Each student selects 2 papers relating to the topics of the course (not necessarily from the course outline) and writes a report about the paper in form of a referee report. The chosen paper has to contain original research. It cannot be a literature overview, an opinion piece, a newspaper article, etc. The paper report has to be given in before that specific paper is discussed in class. More information will be handed out separately.

Late and Missing Assignments

It is the student's responsibility to meet the requirements of the course in a timely manner. If a student has a verifiable and legitimate excuse for a late or missed assignment, the student has to discuss with the instructor who this assignment will be handled.

Midterm and Final, Missed Exams, and Time Conflicts

The date and time of the midterm and the final will be agreed upon with the students in the first two weeks of class. It is the student's responsibility to make sure that there is no time conflict with the date and time of the exams. If a student misses the final, the course is not completed. There will be no make-up final. There will also be no make-up midterm. If you miss the midterm, the midterm will count as 0% unless a verifiable and legitimate excuse is presented. If you have a verifiable and legitimate excuse, the weight of the midterm will be shifted to the final.

Practice Questions

Practice questions will be posted online throughout the semester. These will not be graded, but students are encouraged to use them for practice.

Announcements, Online Materials, and Email Policy

There will be a course website on *courselink*. Students are expected to visit the course website on a regular basis because announcements and online materials for the course will be posted there.

I will also use *email* as a means of communication with the students. Students are expected check their *uoguelph* account regularly. I will typically answer emails within 48hrs, but should not be expected to answer emails over the weekend.

I will be available for students during my office hours. In case of a time conflict with the office hours, I am also available for meetings outside the office hours. These appointments have to be agreed upon ahead of time, so that I can make sure to be available.

Course Evaluation

You will be asked to complete an evaluation of this course **in class** at some time during the last two weeks of the semester. The Department of Economics policy regarding the conduct and use of these can be found at:

<http://www.economics.uoguelph.ca/course-evaluation.asp>

Note: The instructor reserves the right to modify the covered topics and assignments throughout the course.

Course Outline

We will discuss several of the following articles in detail in class. The required readings are indicated by a *. Homework assignments and exams will be based only upon the material discussed in class. The remaining articles can be used as a reference list for future research project etc.

Week 1 Normative Analysis **Jan 9, 11**

Welfare Economics, The Fundamental Theorems of Welfare Economics, Theory of the Second Best, Social Welfare Functions, Simple Exchange Economy.

Overview Article:

- * Boadway, Robin, 1997, Public Economics and the Theory of Public Policy, Canadian Journal of Economics 30 (4a): 753-72.

Week 2 A Role for Government: Public Goods **Jan 16, 18**

- * Holtermann, S.E., 1972, Externalities and Public Goods, *Economica*, New Series, 39 (153): 78-87.

- * Samuelson, Paul A., 1954, The Pure Theory of Public Expenditure, *Review of Economics and Statistics* (November): 387-89.

- * Samuelson, Paul A., 1955, Diagrammatic Exposition of a Theory of Public Expenditures, *Review of Economics and Statistics*: 350-56.

Bergstrom, Theodore, Laurence Blume, and Hal Varian, 1986, On the Private Provision of Public Goods, *Journal of Public Economics* 29: 25-49.

Andreoni, James, 1989, Privately Provided Public Goods in a Large Economy: The Limits of Altruism, *Journal of Public Economics* 35: 57-73.

Andreoni, James, and Ted Bergstrom, 1996, Do Government Subsidies Increase the Private Supply of Public Goods?, *Public Choice* 88: 295-308.

Caves, Douglas W., and Laurits R. Christensen, The Relative Efficiency of Public and Private Firms in a Competitive Environment: The Case of Canadian Railroads, *Journal of Political Economy* 88, no. 5 (Oct 1980): 958-76.

Chan, Kenneth S., Stuart Mestelman, Rob Moir, and R. Andrew Muller, The Voluntary Provision of Public Goods Under Varying Income Distributions, *Canadian Journal of Economics* 29, no. 1 (February 1996): 54-69.

Coase, Ronald H., The Lighthouse in Economics, *Journal of Law and Economics* (October 1974): 357-76.

- * Palfrey, Thomas R., and Jeffrey E. Prisbrey, Anomalous Behavior in Public Goods Experiments: How Much and Why?, *American Economic Review* 87 (December 1997): 829-46.

Week 3 A Role for Government: Externalities
Jan 23, 25

- * Mishan, E.J., The Postwar Literature on Externalities: An Interpretative Essay, *Journal of Economic Literature* 9, no.1 (March 1971): 1-28.

Coase, Ronald H., 1960, The Problem of Social Cost, *Journal of Law and Economics* 3: 1-44.

- * Varian, H., 1994, A Solution to the Problem of Externalities when Agents are Well-Informed, *American Economic Review* 84: 1278-93.

Gruber, J., Tobacco at the Crossroads: The Past and Future of Smoking Regulation in the United States, *Journal of Economic Perspectives* 15, no. 2 (Spring 2001): 193-212.

Harford, Jon D., Firm Ownership Patterns and Motives for Voluntary Pollution Control, *Managerial and Decision Economics* 18 (1997): 412-31.

Crestin, David S., Federal Regulation of New England Fisheries: A Different Point of View, *Northeastern Naturalist* 7 (4) (2000):

Week 4 A Role for Government: Income Redistribution
Jan 30, Feb 1

- Browning, Edgar K., 1989, Inequality and Poverty, *Southern Economic Journal* 55 (4): 819-830.

Thurow, Lester C., The Income Distribution as a Pure Public Good, *The Quarterly Journal of Economics* 85, no. 2 (March 1971): 327-36.

Konrad, Kai A., The Strategic Advantage of Being Poor: Private and Public Provision of Public Goods, *Economica* 61 (1994): 79-92.

Boadway, Robin, and Maurice Marchand, The Use of Public Expenditures for Redistributive Purposes, *Oxford Economic Papers* 47 (1995): 45-59.

- * Besley, T. and S. Coate, Public Provision of Private Goods and the Redistribution of Income, *American Economic Review* 81 (1991): 979-84.
- * Jorgenson, D.W., 1998, Did we lose the war on poverty?, *Journal of Economic Perspectives*, 12(1): 79-96.

Week 5 Taxation
Feb 6, 8

- Mirrlees J. A., 1971, An Exploration of the Theory of Optimal Income Taxation, *Review of Economic Studies* 38 (2): 175-208.
- * Boadway, R., 1998, The Mirrlees Approach to the Theory of Economic Policy, *International Tax and Public Finance* 5: 67-81.
- * Stiglitz, J.E., 1982, Self-Selection and Pareto-Efficient Taxation, *Journal of Public Economics* 1982: 213-240.

Browning Edgar K., and William R. Johnson, 1984, The Trade-Off between Equality and Efficiency, *Journal of Political Economy* 92 (2): 175-203.

Wilson, John Douglas, Optimal Income Taxation and International Personal Mobility, *The American Economic Review* 82, no. 2 (May 1992): 191-96.

* Varian, H.R., 2001, In the debate over tax policy, the power of luck shouldn't be overlooked, *New York Times*, New York, N.Y.

* Weymark, J.A., and C. Brett, 2008, Strategic Nonlinear Income Tax Competition with Perfect Labour Mobility, Vanderbilt University working paper No. 08-W12.

Week 6 Social Programs
Feb 13, 15

Aaron, Henry J., 1984, Six Welfare Questions Still Searching for Answers, *Brookings Review* 3 (1): 12-17.

Green, David A., and Craig W. Riddell, 1993, The Economic Effects of Unemployment Insurance in Canada, An Empirical Analysis of UI Disentitlement, *Journal of Labor Economics* 11(1): 96-147.

Allen, Douglas, 1993, Welfare and the Family: The Canadian Experience, *Journal of Labor Economics* 11 (1): 201-23.

Hum, Derek, and W. Simpson, 1993, Economic Response to a Guaranteed Annual Income: Experience from Canada and the United States, *Journal of Labor Economics* 11 (1): 263-96.

Hanratty, Maria J., and Rebecca M. Blank, 1992, Down and Out in North America: Recent Trends in Poverty Rates in the United States and Canada, *Quarterly Journal of Economics* 107 (1): 233-54.

WINTER BREAK FEB 20-24

Week 7 Public Choice
Feb 27, 29

Midterm 1 – Date and Location TBA

Individual and collective preferences, Median Voter Theorem, voting rules, Arrow's Impossibility Theorem

Week 8 Strategic Voting and Elections
March 5, 7

* Austen-Smith, D., and J. Banks, 1996, Information Aggregation, Rationality, and The Condorcet Jury Theorem, *American Political Science Review* 90 (1): 34-45.

* Feddersen, T. J., and W. Pesendorfer, 1996, The Swing Voter's Curse, *American Economic Review* 86 (3): 408-24.

Feddersen T.J. and W. Pesendorfer, 1998, Convicting the Innocent: The Inferiority of Unanimous Jury Verdicts under Strategic Voting, *American Political Science Review* 92 (1): 23-35.

Feddersen T.J., and W. Pesendorfer, 1999, Elections, Information Aggregation, and Strategic Voting, *Proceedings of the National Academy of Sciences of the United States of America* 96 (19): 10572-74.

Feddersen, T. J., and W. Pesendorfer, 1997, Voting Behavior and Information Aggregation in Elections with Private Information, *Econometrica* 65 (5): 1029-58.

Feddersen T.J., and W. Pesendorfer, 1999, Abstention in Elections with Asymmetric Information and Diverse Preferences, *The American Political Science Review* 93 (2): 381-98.

Myerson, R., 1998, Extended Poisson Games and the Condorcet Jury Theorem, *Games and Economic Behavior* 25:111-31.

Week 9 Elected Politicians
March 12, 14

* Osborne, Martin J., and Al Slivinski, 1996, A Model of Political Competition with Citizen-Candidates, *Quarterly Journal of Economics* 111 (1): 65-96.

Besley, Timothy, and Stephen Coate, 1997, An Economic Model of Representative Democracy, *Quarterly Journal of Economics* 112 (1): 85-114.

* Caselli, Francesco, and Massimo Morelli, 2004, Bad Politicians, *Journal of Public Economics* 88(3-4): 759-82.

Mattozzi, Andrea, and Antonio Merlo, Political Careers or Career Politicians, *Journal of Public Economics*, forthcoming.

Messner, Matthias, and Matthias Polborn, 2004, Paying Politicians, *Journal of Public Economics* 88 (12): 2423-2445.

Besley, Timothy, 2004, Joseph Schumpeter Lecture: Paying Politicians: Theory and Evidence, *Journal of the European Economic Association* 2 (2-3): 193-215.

Week 10 Parties
March 19, 21

* Snyder, James M. Jr., and Michael M. Ting, 2002, An Informational Rationale for Political Parties, *American Journal of Political Science* 46 (1): 90-110.

Harrington, Joseph E. Jr., 1992, The Role of Party Reputation in the Formation of Policy, *Journal of Public Economics* 49:107-121.

Young, Lisa, 1998, Party, State and Political Competition in Canada: The Cartel Model Reconsidered, *Canadian Journal of Political Science* 31(2): 339-58.

Week 11 Legislative Bargaining
March 26, 28

* Baron, D. P., and J.A. Ferejohn, 1989, Bargaining in Legislatures, *American Political Science Review* 83 (December): 1181-1206.

Banks, J., and J. Duggan, 2000, A bargaining model of collective choice, *The American Political Science Review* 94 (1): 73-88.

* Morelli, Massimo, 1999, Demand Competition and Policy Compromise in Legislative Bargaining, *American Political Science Review* 93 (4): 809-820.

Austen-Smith, D., and J. Banks, 1988, Elections, Coalitions, and Legislative Outcomes, *American Political Science Review* 82 (June): 405-22.

Leblanc, W, J.M. Snyder, and M. Tripathi, 2000, Majority-Rule Bargaining and the Under-Provision of Public Investment Goods, *Journal of Public Economics* 75: 21-47.

In, Y., and R. Serrano, 2004, Agenda Restrictions in Multi-Issue Legislative Bargaining, *Journal of Economic Behavior and Organization* 53: 385-99.

Volden, C., and A. E. Wiseman, 2006, Bargaining in Legislatures over Particularistic and Collective Goods, *American Political Science Review* 101 (1): 79-92.

Frechette, G.R., J. H. Kagel, and M. Morelli, 2005, Behavioral identification in coalitional bargaining: An experimental analysis of demand bargaining and alternating offers, *Econometrica* 73 (6): 1893-1938.

Week 12 Interest Groups
April 2, 4

* Snyder, James M., Jr. On Buying Legislatures, *Economics and Politics* 3 (1991): 93-109.

* Groseclose, Tim, and James M. Snyder, Buying Supermajorities, *American Political Science Review* 90 (June 1996): 303-15.

Besley, Timothy, and Stephen Coate, Lobbying and Welfare in a Representative Democracy, *Review of Economic Studies* 68 (2001):67-82.

Costain, Anne N., The Struggle for a National Women's Lobby: Organizing a Diffuse Interest, *The Western Political Quarterly* 33, no.4 (Dec. 1980): 476-91.

Saunders, Robert S., The Political Economy of Effective Tariff Protection in Canada's Manufacturing Sector, *The Canadian Journal of Economics* 13, no.2 (May1980): 340-48.

Toner, Glen, and G. Bruce Doern, The Two Energy Crises and Canadian Oil and Gas Interest Groups: A Re-Examination of Berry's Propositions, *Canadian Journal of Political Science* 19, no. 3 (Sept. 1986): 467-93.