

Public Economics¹

Course description: Public economics provides the foundations of public policy evaluation for both high and low-income economies. Specific policy and public spending issues are grounded in microeconomic principles of efficiency and justice. Concepts covered include externalities, public and common property goods, public choice, benefit-cost analysis, rent-seeking and corruption, constitutional design, and the new institutional economics. Applications include policies for regulating pollution and environmental degradation, industry and trade, infrastructure, health care, education, housing, food security, and poverty alleviation in industrialized and developing economies. In each case, the method of accessing correct principles is emphasized, thus allowing students to tackle policy problems relating to their research interests and anticipated careers.

Text: Tresh, *Public Finance*

Other refs

Myles, *Public Economics*, Cambridge U. Press, 1995

Baker and Elliot (BE), *Readings in Public Finance*

Handbook of Public Economics, North Holland

Welfare Economics and the Minimal Role of Government (WEMRG; classnotes)

First-best Public Economics

- I. The role of government in facilitating markets and redistributing income
 - A. Fundamental theorems of welfare economics (1a and 1b).
 - B. Tresh, chs 1 and 2.
 - C. Arrow, "The Organization of Economic Activity: Market versus Non-market Allocation," (appendix to WEMRG)
 - D. Rivlin and Buchanan, chs. 1 and 2 in BE²
 - E. Ricoeur, "Rawls and the Possibility of Pure Procedural Justice," *Int. Social Science J.*, 1992, 553-64²
 - D. Study question: What is the role of convexity in 1a and 1b?
- II. The role of government in redistributing income (psych)
 - A. Tresh, chs 3 and 4
 - B. R'set, "Development is Letting Go of Fear," PCR WP 1993-3.
 - C. Study question: Compare and evaluate the modernist (Samuelsonian and New Welfare Economics) vs. the classical liberal (Aristotle-Wicksell-Buchanan) approach to equity
- III. The role of government in correcting market failure: externalities
 - A. Theorems 2a and 2b

¹ Proposed name to replace "Public Finance I." The anticipated new name for Econ 651 (formerly "Public Finance II") is "Public Finance and Political Economy".

- B. Tresh, ch 5
- III. The failure of modernism, and Coase to the rescue
 - A. Pigouvian failures and the objectives for a Coase Theorem
 - B. Coasean equivalency: theorems 3a and b.
 - C. Appendix to classnotes on shrinking core and Johansson & R'set, "Apples, Bees, and Contracts: A Coase-Cheung Theorem for Positive Spillover Effects," mimeo 1996
 - D. Starrett, *Econometrica*, 1973 and Hurwitz, *Japan and the World Economy*
- IV. The role of government in correcting market failure: public goods
 - A. Theorems 4a and 4b.
 - B. Tresh, ch. 6
- V. Production externalities and pollution solutions: Tresh chs. 7 and 8.
- VI. The role of government in correcting market failure: decreasing cost industries, Trsh9

Second-best Public Economics

- I. Overview
 - A. Tresh, 12
 - B. Greenwald and Stiglitz, "Externalities in Economies with Imp. Information and Incomplete Markets," QJE, 1986, 229-64 (jstor)
 - C. R'set, "The New Institutional Economics and Agricultural Organization,"
- II. Transfer payments: Tresh, chs 18, 19
- II. Tresh, chs 20-22
- III. Benefit-cost analysis
 - A. Tresh, Part IV.
 - B. Kaplow, *JEP*, 2004
- IV. Policy analysis, general equilibrium considerations
- V. Fiscal federalism
 - A. Tresh, Part V.
 - B. Hamilton, "Tiebout Hypothesis," in NP; Wooders, *Econometrica*, Sept., *Econometrica*, Sept, 1980; Conley, "Convergence Theorems on the Core of a Public Goods Economy: Sufficient Conditions," JET 62, 161-85, (1994).²

Third-best Public Economics

- I. Positive analysis
 - A. Balisacan & R'set, "Public Choice of Econ Policy: The Growth of Ag Protection," *Weltwirtschaftliches Archives*, 1987.
 - B. Schleifer and Vishny, "Corruption," QJE, Aug, 1993, 599-618.
 - C. R'set, The Political Economy of Corruption, UH, Econ WP97-10R
 - D. Glaeser, Edward L. and Andrei Shleifer (2001b), The Rise of the Regulatory State, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=290287
- II. Normative analysis
 - A. Roumasset, "Decentralization and Local Public Goods: Getting the Incentives Right," *Philippine Review of Business and Economics*, Vol. 26, No. 1 (June 1989). (Note implication of G-Stig. for benefit taxation.)

² Optional

- IV. Blackhole economics: infrastructure policy, prohibition, and security
 - A. Hulton and Schwab, "Infrastructure Spending," Nat.TaxJ, 9/93, 261-73.²
 - B. Winston, "Efficient Transportation Infrastructure Policy," JEP, Winter '91, 113-127.
 - C. Arnott and Small, American Scientist, v. 82, 446-455, Sept., 1994.
 - D. Johansson and Rset, Taxification of Cocaine
 - E. Roumasset, Blackhole economics, UH Working paper 00-5

Requirements and grading:

Midterm	24%
Paper	24%
Final	36%
Homework+citizenship	16%

Office hrs: W, 1:30-3 in SSB 514