

UNIVERSITY OF HAWAII AT MANOA

DEPARTMENT OF ECONOMICS

**Economics 650  
Public Economics  
Fall 2009**

Instructor: Lee H. Endress  
Lecture: T/Th 4:30 - 6:00pm  
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**Course Description:** This course is an introduction to the field of public economics. Topics will include: the role of government; general equilibrium and welfare economics; externalities and public goods; excess burden and optimal taxation; asymmetric information; cost - benefit analysis, including aspects of risk and discounting; and an introduction to dynamic public economics addressing policy issues such as national debt, social security, and sustainable development. Course format will be a combination of lecture, student presentations, and seminar style discussions of pertinent issues in public economics. Readings will be from assigned texts and papers from the public economics literature, with emphasis on the "classics." Problem sets will be assigned. All students are required to prepare and present a research paper.

**Learning Objectives:** The objectives of this course are to (1) prepare students to develop and evaluate public policy; (2) apply advanced microeconomic principles to the public sector; (3) provide exposure to the classic literature of the field; (4) engage students in research that contributes to the field of public economics; and (5) enhance student confidence in teaching and presentation skills.

**Required Texts:**

Boadway and Bruce, *Welfare Economics*, Blackwell, 1984  
Hindriks and Myles, *Intermediate Public Economics*, MIT Press, 2006  
Myles, *Public Economics*, Cambridge U. Press, 1995

**Other References:**

Dixit, *The Making of Economic Policy*, MIT Press, 1996 (ISBN: 978-0262540988)  
Jones, *Applied Welfare Economics*, Oxford U. Press, 2005  
Kaplow, *Taxation and Public Economics*, Princeton U. Press 2008  
Laffont, *Fundamentals of Public Economics*, MIT Press, 1988  
Layard and Glaister (eds), *Cost-Benefit Analysis (2nd Ed)*, Cambridge U. Press, 1994  
Salanie, *Economics of Taxation*, MIT Press, 2003 .  
Tresch, *Public Finance (2nd Ed)*, Academic Press, 2004

**Grading:** Midterm Exam: 20%  
Final Exam: 30%  
Research Paper: 30%  
Presentations/Participation: 20%

Note: Students selecting the credit/no credit option are required to complete a research paper and participate in all class activities, including presentations.

**Key Dates:** Sept 24: research paper proposals due  
Oct 13: Midterm exam  
Nov 24: Research papers due  
Dec 15: Final exam

### **Tentative Agenda and Course Schedule:**

#### 1. General equilibrium and welfare economics

Dates: Aug 25, 27; Sept 1  
Readings: Myles chap 2, pp 18-50;  
Debreu/Scarf (1963)

#### 2. Externalities

Dates: Sept 3, 8, 10  
Readings: Myles chap 10 pp 312-326 and 334-341;  
Coase (1960), Hardin (1968), Johannson/Roumasset (2001),  
Samuelson (1995), Starrett (1972)

#### 3. Public Goods

Dates: Sept 15, 17, 22  
Readings: Myles chap 9 pp 263-311;  
Atkinson/Stern (1974), Bergstrom et al (1986), Buchanan (1965),  
Foley (1970), Groves/Ledyard (1977), Lindahl (1919), Samuelson  
(1954) and (1955), Tiebout (1956)

#### 4. Excess Burden and Optimal Taxation

Dates: Sept 24, 29; Oct 1, 6  
Readings: Myles chap 4  
Corlett/Hague (1953), Diamond/Mirrlees (I,II, 1971), Dixit (1970),  
Harberger (1954), Ramsey (1927), Sandmo (1975)

#### 5. Review and Midterm Exam

Dates: Oct 8-Review; Oct 13-Midterm

#### 6. Asymmetric Information

Dates: Oct 15, 20, 22  
Readings: Arnott/Stiglitz (1986) and (1988), Dixit/Stiglitz (1977),  
Greenwald/Stiglitz (1986)

7. Applied Welfare Economics and Cost-Benefit Analysis

Dates: Oct 27, 29, Nov 3, 5

Readings: Myles chap 3; Boadway and Bruce chaps 7, 8, 10

Diamond/McFadden (1974), Dinwiddie/Teal (1990), Dixit/Weller (1979), Harberger (1968) and (1971), Hausman (1981), Samuelson (1950), Willig (1976)

8. Overlapping Generations and Dynamic Public Economics

Dates: Nov 10, 12, 17, 19

Readings: Myles chaps 13, 14, 15

Diamond (1965), Endress et al (2005), Samuelson (1958)

9. Miscellaneous Topics:

Dates: Nov 24, Dec 1

9. Research Paper Presentations:

Dates: Dec 3, 8, 10

11. Final Exam:

Date: Dec 15

## Papers

Amott, Rand J. Stiglitz (1986) Moral Hazard and Optimal Commodity Taxation, Journal of Public Economics 29 pp 1-24

Amott, R and J. Stiglitz (1988) The Basic Analytics of Moral Hazard, Scandinavian Journal of Economics 90, pp 383-413

Atkinson, A. and N. Stern (1974) Pigou, Taxation, and Public Goods, Review of Economic Studies 41, pp 119-28

Bergstrom, T., L. Blume and H. Varian (1986), On the Private Provision of Public Goods, Journal of Public Economics 29, pp 25-49

Buchanan, J. (1965) An Economic Theory of Clubs, *Economica* 32, pp 1-14

Coase, R. (1960) The Problem of Social Cost, *Journal of Law and Economics* 3, pp 1-44

Copeland, B. and M. S. Taylor (2009) Trade, Tragedy, and the Commons, *American Economic Review*, Vol. 99, No. 3, pp 725-749

Corlett, W. and D. Hague (1953) Complementarity and the Excess Burden of Taxation, *Review of Economic Studies* 21, pp 21-30

Debreu, G. and H. Scarf (1963) A Limit Theorem on the Core of an Economy, *International Economic Review* Vol. 4 No.3, pp 235-246

Diamond, P. (1965) National Debt in a Neoclassical Growth Model, *American Economic Review* 55, pp 1126-1150

Diamond, P. and D. McFadden (1974) Some Uses of the Expenditure Function in Public Finance, *Journal of Public Economics* 3, 3-21

Diamond, P. and J. Mirrlees (1971) Optimal Taxation and Public Production I: Production Efficiency, *American Economic Review* 61, 8-27

Diamond, P. and J. Mirrlees (1971) Optimal Taxation and Public Production II: Tax Rules, *American Economic Review* 61, pp 261-78

Dinwiddie, C. and F. Teal (1990) Foreign Exchange Equivalence and Project Appraisal Procedures, *The Economic Journal* Vol. 100 No. 401, pp 567-576

Dixit, A. (1970) On the Optimum Structure of Commodity Taxes, *American Economic Review*, pp 295-301

Dixit, A. and P. Weller (1979) The Three Consumer Surpluses, *Economica* 46, pp 125-135

Endress, L., J. Roumasset and T. Zhou (2005) Sustainable Development with Environmental Spillovers, *Journal of Economic Behavior and Organization* 58, pp 527-547

Foley, D. (1970) Lindahl's Solution and the Core of an Economy with Public Goods, *Econometrica* 38, pp 66-72

Greenwald, B. and J. Stiglitz (1986) Externalities in Economies with Imperfect Information and Incomplete Markets, *The Quarterly Journal of Economics* 101, pp 229-264

Groves, T and J. Ledyard (1977) Optimal Allocation of Public Goods: A Solution to the Free Rider Problem, *Econometrica* 45, pp 783-809

Harberger, A. (1954) Monopoly and Resource Allocation, *American Economic Review* 45, pp 297-308

Harberger, A. (1968) On Measuring the Social Opportunity Cost of Public Funds, *Western Agricultural Economics Research Council, Report No. 17, Denver, Colorado*

- Harberger, A. (1971) Three Basic Postulates for Applied Welfare Economics: An Interpretative Essay, *Journal of Economic Literature* 9, pp 785-97
- Hardin, G. (1968) The Tragedy of the Common, *Science* Vol. 162, pp 1243-1248
- Hausman, I. (1981) Exact Consumer's Surplus and Deadweight Loss, *American Economic Review* 71, pp 662-76
- Johansson, J. and I. Roumasset (2001) Apples, Bees and Contracts: A Coase-Cheung Theorem for Positive Spillover Effects, University of Hawaii at Manoa, Economics Department Working Paper
- Lindahl, E. (1919) Just Taxation-A Positive Solution
- Ramsey, F. (1927) A Contribution to the Theory of Taxation, *The Economic Journal* 37, pp 47-61
- Samuelson, P. (1950) Evaluation of Real National Income, *Oxford Economic Papers*, N.S. 2. pp 1-29
- Samuelson, P. (1954) The Pure Theory of Public Expenditure, *Review of Economics and Statistics* 36, pp 387-89
- Samuelson, P. (1955) Diagrammatic Exposition of a Theory of Public Expenditure, *Review of Economics and Statistics* 37, pp 350-356
- Samuelson, P. (1958) An Exact Consumption-Loan Model of Interest With or Without the Contrivance of Money, *Journal of Political Economy*, LXVI No 6, pp 467-82
- Samuelson, P. (1995) Some Uneasiness with the Coase Theorem, *Japan and the World Economy* 7, pp 1-7
- Sandmo, A. (1975) Optimal Taxation in the Presence of Externalities, *Swedish Journal of Economics* 77, pp 86-98
- Starrett, D. (1972) Fundamental Nonconvexities in the Theory of Externalities, *Journal of Economic Theory* 4, pp 180-189
- Tiebout, C. (1956) A Pure Theory of Local Expenditure, *Journal of Political Economy* 64, pp 416-24
- Willig, R. (1976) Consumer's Surplus Without Apology, *American Economic Review* 66 pp 589-97