

**Schedule:**

**W 1/24: Lecture 1: Introduction**

Readings: HM pp3-9, 49-69

Introduction:

What is public economics? What questions are we seeking to answer?  
Basic facts about the scope of government

**M 1/29: Lecture 2: The Competitive Economy Model**

Readings: HM 11-42

Setting up the Arrow-Debreu model

**W 1/31: Lecture 3: First and Second Welfare Theorems**

Readings: Nothing new, carryover from previous lecture

Deriving the welfare theorems and explaining their implications  
The Coase Theorem

**M 2/5: Lecture 4: List of Market Failures**

Readings: HM 73-94

Reviewing the assumptions of the Arrow-Debreu model and showing how violations lead to market failures.

Examples of market failures stemming from violations of assumptions

Discussion of how this provides a rationale for government

Theme: government intervention often limited by private information.

**W 2/7: Lecture 5: Public Goods**

Readings: HM 101-110, 113-117

Samuelson rule and case for government provision

Lindahl Equilibrium

**M 2/12: Lecture 6: Mechanism Design**

Readings: HM 117-124

Mechanism Design- limits of truthful revelation

General principle that eliciting information has some efficiency cost.

**W 2/14: Lecture 7: Club Goods**

Readings: HM 143-145, 145-151

Club goods: provision and membership

**M 2/19: Lecture 8: Local Public Goods**

Readings: HM 151-169

Tiebout sorting

**W 2/21: Lecture 9: Externalities**

Readings: HM 174-195

Pigouvian taxation: aligning PMB with SMB.

Licensing (cap and trade)

**M 2/26: Lecture 10: Imperfect Competition**

Readings: HM 207-215, 217-220, 231-242

Taxation and regulation of monopolists

**W 2/28: Lecture 11: Asymmetric Information**

Readings: HM 251-261, 277-278

Market unraveling in insurance (online dating)

Asymmetric information and moral hazard

**M 3/5: Lecture 12: Fundamental Dilemma of Public Choice**

Readings: HM 301-322, 369-388

Preference aggregation framework

Condorcet winner

Policy Cycles: importance of agenda setting & strategic voting

Arrow's impossibility theorem, beyond Pareto optimality

**W 3/7: Lecture 13: Voting Results**

Readings: nothing new, carryover from previous lecture

Median voter theorem

Multi-dimensional results

May's theorem

**M 3/26: Lecture 14: Commodity Taxation**

Readings: HM 220-226, 443-460

Economic tax incidence

Inverse-elasticity and Ramsey rules

**W 3/28: Lecture 15: Income Taxation**

Readings: HM 477 – 487 (midway down page)

Principles of efficient taxation

Labor-leisure choice

Inequality

**M 4/2: Lecture 16: Fiscal Federalism**

Readings: HM 543-563

Externalities vs. preference heterogeneity vs. information requirements

**W 4/4: Lecture 17: Fiscal Competition**

Readings: HM 569-576, 582-583, 589-599

Race to the bottom

Grants to internalize expenditure externalities

Flypaper effect

**PS1 out 2/14, due 3/5, covers through lecture 11**

**PS2 out 3/7, due 4/2, covers through lecture 17**

**Midterm Exam 4/4 in class or take-home 4/5, 4/6.**

Lectures 18 – 26: Student led discussions on specific subject areas

**Key:**

{ } optional background reading: on reserve in library

(\*) technically challenging

(#) paper copy only (all other readings available online via Blackboard)

**Lecture 18 M 4/9: Healthcare**

- {Stiglitz, 300-330}
- (\*) Cutler and Gruber, (1996) “Does Public Insurance Crowd Out Private Insurance?” *Quarterly Journal of Economics*, 111(2), pp 391-430.
- Raisa Berlin Deber. 2003. Health Care Reform: Lessons from Canada. *American Journal of Public Health* 93(1), 20-24.
- Uwe Reinhardt. 1993. Reforming the Health Care System: The Universal Dilemma. *American Journal of Law and Medicine* 19: 21-36.
- Victor Fuchs. 2002. What’s Ahead for Health Insurance in the United States? *NEJM* 346: 1822-24.
- Fuchs, Victor R. and Ezekiel J. Emanuel. 2005. [Health Care Reform: Why? What? When?](#) *Health Affairs* 24(6): 1399-1414.
- Aaron, Henry J. 2005. [Health Care Rationing: What it Means](#) *The Brookings Institution Policy Brief* #147

**Lecture 19 W 4/11: Social Security**

- {Stiglitz, 353-381}
- Diamond (2004) “Social Security” *AER* 94(1) pp 1-24.
- Diamond-Orszag (2005) “Saving Social Security” *Journal of Economic Perspectives* 19(2) pp 11-32
- Feldstein (2005) “Structural Reform of Social Security” *Journal of Economic Perspectives* 19(2) pp 33-55

**Lecture 20 M 4/16: Education: publicly provided private good**

- Levin, Henry M. 1987. [Education as a Public and Private Good](#). *Journal of Policy Analysis and Management* 6: 628-639.
- Ladd, Helen. (2002) [School Vouchers: A Critical View](#). *Journal of Economic Perspectives* 16 (4): 3-24.
- Neal, Derek. (2002) How Vouchers Could Change the Market for Education *Journal of Economic Perspectives* 16 (4): 25-44.
- Brian P. Gill, P. Michael Timpane, Karen E. Ross, Dominic J. Brewer. (2001) *Rhetoric versus Reality: What We Know and What We Need to Know About Vouchers and Charter Schools*. The Rand Corporation. Summary

**Lecture 21 W 4/18: Education Finance**

- (\*) Card, David and Abigail Payne (2002) “School Finance Reform, the Distribution of School Spending, and the Distribution of Test Scores,” *Journal of Public Economics*

- (\*) Gordon, Nora (2004) “Do Federal grants Boost School Spending? Evidence from Title I,” *Journal of Public Economics*
- Hanushek, (2001) “Spending on Schools” in *A Primer on American Education* ed. Terry Moe
- (\*) Hanushek and Rivkin, How to Improve the Supply of High-Quality Teachers, Brookings Papers on Education Policy 2004

#### **Lecture 22 M 4/23: Welfare Reform**

- Rector and Fagan, “The Continuing Good News About Welfare Reform” *Heritage Foundation Backgrounders* #1620, February 6, 2003.
- (\*) Figlio, Van-Koplin, Reid (1999) “Do States Play Welfare Games?” *Journal of Urban Economics*, 46 pp 437-454
- (\*) Blank, (2002) “Evaluating Welfare Reform in the United States” *Journal of Economic Literature* 40(4) pp1105-1166.
- (\*) Grogger (2003) “Welfare Transitions in the 1990s” *Review of Economics and Statistics*

#### **Lecture 23 M 4/25: Income Taxation**

- (\*) Eissa-Hoynes (2004)
- (\*) Gruber-Saez (2002) “The Elasticity of Taxable Income: Evidence and Implications,” *Journal of Public Economics*, 84(1) 1-32.
- (\*#) Varian (1980) “Redistributive Taxation as Social Insurance,” *Journal of Public Economics*, 14(1) 49-68.

#### **Lecture 24 W 4/30: Debt and Deficits**

- {Rosen, chapter 19}
- Kotlikoff (2006) “Averting America’s Bankruptcy with a New New Deal” *The Economist’s Voice* 3(2) Article 5
- Gale-Orszag (2004) “The Budget Outlook: Projections and Implications” *The Economist’s Voice* 1(2) Article 6
- Boskin (2004) “Sense and Nonsense about Fiscal Deficits and Debt” *The Economist’s Voice* 1(2) Article 7
- Stiglitz (2004) “The Parties Flip-Flops on Deficit Spending: Economics or Politics?” *The Economist’s Voice* 1(1) Article 2

#### **Lecture 25 5/2: Federalism**

- Donahoe (1997) “Tiebout? Or Not Tiebout? The Market Metaphor and America’s Devolution Debate” *Journal of Economic Perspectives* 73-82
- Inman, Rubinfeld (1997) “Rethinking Federalism” *Journal of Economic Perspectives* 43-64
- Qian-Weingast (1997) “Federalism as a Commitment to Preserving Market Incentives” *Journal of Economic Perspectives* 83-92
- Quigley, Rubinfeld (1996) “Federalism and Reductions in the Federal Budget” *National Tax Journal* 289-302.

#### **Lecture 26 M 5/7: Pollution Control**

- Tietenberg, Thomas H. "Economic Instruments for Environmental Regulation." *Oxford Review of Economic Policy* 6, no. 1 (March 1990): 17-33. (Chapter 16 in *EESR*).
- Barthold, Thomas A. "Issues in the Design of Environmental Excise Taxes." *Journal of Economic Perspectives* 8, no. 1 (Winter 1994): 133-151.
- Gorman and Solomon, (2002) "The Origins and Practice of Emissions Trading" *Journal of Policy History*
- (#) Stavins, Robert N., 2003. "Experience with market-based environmental policy instruments," *Handbook of Environmental Economics*, in: K. G. Mäler & J. R. Vincent (ed.), *Handbook of Environmental Economics*, edition 1, volume 1, chapter 9, pages 355-435, Elsevier.

Reading Period: 5/9 – 5/13

**Final Paper due: Monday 5/14, 5pm.**