

## Public Choice: Rational Choice and Public Policy

R. D. Congleton  
Adam Smith Professor

Bayreuth University  
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Office : GW II 02.25  
Phone: 55 - 4208 office  
E-Mail: Congleto@gmu.edu  
Web Site: rdc1.net

Office Hours: Tuesday and Wednesday 10:30 - 12:00, and by appointment

### Optional Texts:

Mueller, D. (2003) *Public Choice III*. Cambridge: Cambridge University Press.  
Hillman, A. L. (2003) *Public Finance and Public Policy, Responsibilities and Limitations of Government*. Cambridge: Cambridge University Press  
(See also the class website for lecture notes and other readings.)

### Overview:

Economic activity within modern democracies is dominated by government policies. Government policies define property rights and affect market prices, wages, and job opportunities. Government services and transfers partly determine the demand for private services. How are these policies determined in a democracy? How should these policies be determined?

This course analyzes the formation of public policy using rational choice models of politics drawn largely from the public choice literature. The first part of the course explores positive theories of the state and implications of democratic procedures for public policies. It develops the median voter theorem, interest groups, and rent seeking and analyzes the informational efficiency of democracy. The second part of the course explores normative issues concerning ideal policies and institutional design. Applications include taxation, environmental regulation, terrorism, and institutional design.

### Tentative Course Outline

#### 11/5 I. Introduction: Positive and Normative Theories of the State

Positive and Normative Defined. An Overview of Theories of Anarchy and the Emergence of the State: Conflict in Hobbesian Anarchy as "Competitive Waste," Coordination and Conventions, Property Rights and Collective Action. The Reason for Rules and Collective Action.

#### 18/5 II. Introduction to Voting Models

Voting rules: median voter outcomes in one and two dimensional issue spaces Pareto Inefficiency of some outcomes

#### 25/5 III More Applications of the Median Voter Model

Majority rule and the collective provision of public services. Simultaneousness of tax and output decisions, Regulation, Redistribution

- 1/6 IV. Problems with Majority Rule  
The Paradox of Voting, Rational Ignorance, Majority Rule Intransitivity, Arrow's Impossibility Theorem, Coalitional Instability and Interest Groups.
- 8/6 V. Stochastic Voting Models  
Candidate induced uncertainty, voting as a lottery, Mixed and Pure Strategies in Voting
- 15/6 VI. Voting and Institutions  
Institution induced equilibria, Agenda Control, Alternative Choice Mechanisms
- 22/6 VII. Bureaucracy as a Special Interest Group  
Niskanen: the Budget Maximizing Bureau, Committee Oversight, Agenda Control
- 29/6 VIII. Economic and Ideological Special Interests and Rent-Seeking Losses  
Coalition Formation, Free Riding, and Political Pressure Rents from Government Regulation, Rent Seeking Expenditures Rent-Seeking Waste, Evidence of Rent Seeking: Tax Preferences, Trade Protection, Labor Law, Regulation
- 6/7 XI. Applications: Environmental Protection
- 13/7 XII. Applications: the Political Economy of Terrorism
- 20/7 XIII. Applications: Public Pensions and Health Care
- 27/7 XIV. Course Overview

17/7 **Final Exam**

**Evaluated Coursework :**

Final Exam (2 pt)	100%
Final Exam (10pt)	20%
15 page Final Paper (10pt)	80%