

The purpose of the final paper is to provide the student with the opportunity to write a substantial research paper in the field of public economics. Grades will be based upon the originality and quality of the economic analysis conducted in the paper, and assessed more or less as if the paper is a submission to a third or fourth tier journal. Other things being equal, the more public economics and public choice tools that are applied to the topic chosen and more original and sophisticated is the analysis, the higher the grade will be. The papers can be theoretical or empirical, or better yet, combine elements of both methodologies.

Style counts, because good reasoning is best demonstrated by clear, well-organized prose. All papers should be typed *double* spaced (at least 12 pt fonts and 1 inch margins) and be fifteen to twenty two pages in length, as necessary. Complete references should appear in a bibliography at the end of the paper.

*Some possible themes and paper topics include:*

### 1. Public Choice / Political Economy of Public Economics

- Choose a government service (roads, education, social insurance, defense, etc.) and analyze the distribution of benefits and costs associated with those programs. To what extent can that distribution of benefits and costs explain the extent of the political support for and opposition to those services?
- How do political institutions of various kinds (dictatorship vs. democracy, PR vs single member districts, prime ministerial vs. presidential) affect public service levels and efficiency? Are some services likely to be more affected than others?
- How do variations in state or county institutions of governance affect policy choices within a given country or across countries.

### 2. Public Goods and Externalities

- Choose some public good, commons, or coordination problem and discuss the likely method(s) that a democratic (or authoritarian) polity would use to “solve” these problems. Contrast politically feasible or likely solutions to public goods problems with economically efficient solutions. Are some “solutions” worse than the problems addressed?
- For example, environmental problems are essentially all externality commons problems. Are the policies in place to address specific environmental problems Pareto efficient? If not, how can they be improved? Why have your suggestions already been adopted?
- In short, explain why current policies are less than ideal, or if they are ideal, explain how and why this may be a (temporary) equilibrium.

### 3. Fiscal Illusion

- Discuss the logic and effects of fiscal illusion. Is there any limit on the extent to which such illusions can be exploited. Discuss policies that might serve to reduce fiscal illusion. To what extent might politicians attempt to use fiscal illusion to promote their own interest?
- How important is it that voters directly monitor the Congress, President, and the bureaucracy?
- Does censorship reduce or increase fiscal illusion?
- Is there evidence that the Condorcet jury theorem moderates fiscal illusion in countries with competitive electoral systems? How can such evidence be found?

#### 4. Tax, Expenditure, and Regulatory Incidence

- Choose some real or hypothetical tax or expenditure program and carefully analysis of the incidence of the costs or benefits of the program. Note any spillover effects on other markets or individuals.
- Are their secondary markets or markets for raw materials that are affected by the tax being analyzed.
- Discuss briefly the politics behind the program. [Examples include: food stamps, social security, farm subsidies, property taxes, energy taxes, etc.]
- Show how Pigovian taxes can have an excess burden if taxes are imposed at beyond Pareto Efficient or SNB maximizing levels. Is this effect subject to empirical tests? Analyze such a case in the US or some other country, perhaps gasoline taxes.
- Conduct a similar analysis of some specific regulation that affects some persons or some industries more than others. Demonstrate that you can use tools similar to those developed for taxation to analyze the incidence and deadweight loss of regulation (particularly excessive regulation).

#### 5. Tax, Expenditure, or Regulatory Reform

- Take a proposed tax or expenditure program and discuss its pro's and con's.
- For example, Presidents routinely create blue ribbon commissions to recommend reforms of the US tax code. President Bush's commission recommended capping the mortgage deduction. President Obama's recommended reducing tax preferences generally and lowering tax rates. In what ways would a cap on mortgage deductions or health care deductions change the burden of taxation. Analyze whether such proposals tend to be politically dead on arrival--if they are.
- This year Herman Cain recommended replacing the current tax with a "9-9-9" tax system. Analyze the merits and demerits of such a proposal, referring to normative theories of taxation and empirical evidence on the burden of taxation.
- Social security and public medicine programs are seriously under funded in the US at present. How might such fiscal imbalances (which may become fiscal crises) be addressed? Are other democratic countries in a similar situation? Explain why or why not. How would you test your conclusions?

#### 6. Fiscal Federalism

- Develop an economic rationale for the optimal level of fiscal or regulatory decentralization, that is to say division of responsibilities among local, state and federal governments. Given this, consider whether the U. S. (or some other countries) is over or under centralized in the policy area of interest.
- Contrast some program(s) that is administered in a decentralized way with a more centralized version of the same program.
- What role does "yard stick" competition play in determining the relative efficiency of tax and regulatory policies? Are there political problems that prevent federal systems of governance from reaching the ideal service levels? Explain why or why not?
- Analyze how international variations in federal institutions affect the size and/or efficiency of government services.
- How do tax instruments interact with one another within and among tax authorities? How do such tax effects affect the political demand for public services within and among governments?

#### 7. International Public Economics

- There are wide variety of international organizations that provide public services of various kinds: NATO, the UN, the European Union, etc. How do such organizations raise revenue to pay for their services? How effectively do they provide their services? What are the limits of their ability to provide services or to address international externality and free-rider problems?

- If there are systematic governance failures, as often argued to be the case for many third world governments, what steps can be taken by “outsiders” that would improve their policies?
- Analyze the extent of free rider and/or agency problems in a particular international organization.

## 8. Governmental Growth

- Develop an economic/political explanation (or collection of explanations) for government growth in general or in the level of a particular program or tax (say Medicare, Social Security, Defense, Public Parks, etc.).
- Identify the political, economic, and informational factors that determine the parameters of the program(s) of interest, and attempt to estimate the links between those factors and expenditures.
- Analyze how a specific program(s) affects other aspects of public sector spending or activities in the private sector. For example, does devoting police resources to terrorism increase crime? Does devoting public resources to public pensions reduce private pensions?
- Discuss ways that a bias toward growth (if any exists) can be reduced.

9. Any public economics topic can be tackled, but to be sure that your project is feasible in the time available, please discuss and clear your topics with me before going too far. You can do so by simply writing up a short paragraph that explains what you plan (hope) to do.