

**Public Economics II**

Instructor: Professor Roger Congleton

Office: 405 B&amp;E

Office Hours: Wednesday: 3:30-4:45, Thursday 2:00-3:15 and most other times by appointment.

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**Suggested Texts:**Stigler, G. J. (ed.) (1988) *Chicago Studies in Political Economy*. Chicago: Chicago University Press.Olson, M. (2000) *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships*. New York: Basic BooksCongleton, R. D. (2011) *Perfecting Parliament*. Cambridge: Cambridge University Press.Besley, T. and T. Persson (2011) *Pillars of Prosperity*. Princeton: Princeton University Press.

<b>Grades:</b>	1 Take-Home Exam	30%
	1 Final Research Paper (14-20 pages)	50%
	8 1-pagers	10%
	1 class presentation	10%
	Marginal extra credit for class participation	(up to 5% bonus)

**Course Focus**

Public economics is the study of government policies. It analyzes the effects of those policies on economic activities and the political processes by which those policies are adopted. Public Finance studies the subset of public policies that are fiscal in nature. These include government taxation, debt, and expenditures. The aim of this course is to provide students with the micro-economic tools to understand the impacts of basic regulatory and fiscal policies. Students will also use models and concepts from microeconomics to analyze the political pressures that generate a nation's fiscal and regulatory policies. Modern democratic governments directly control more than a third of their gross national products and influence much of the rest through their fiscal and regulatory policies.

**TENTATIVE COURSE OUTLINE\*\***

<u>Dates</u>	<u>Topics</u>	<u>Readings</u>
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**I. An Introduction to Public Economics**

<b>1/10</b>	<b>Introduction to Public Economics II</b>	<b>AH: 1, T&amp;S: 1-3</b>
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Public Economics for the 21st Century: Controversies and Research Programs: Normative and Positive methodological disagreements and the nature of rational choice.

- i. Congleton, R. D. (2003) "The Future of Public Choice," *Public Choice Studies* 40: 5-23.

- ii. Knack, S. and Keefer, P. (1997) "Does Social Capital Have an Economic Payoff? A Cross-Country Investigation," *Quarterly Journal of Economics* 112: 1251-88.
- iii. Caplan, B. (2001) "Rational Irrationality and the Microfoundations of Political Failure," *Public Choice* 107: 311-331.
- iv. Sugden, R. (1991) "Rational Choice: A Survey of Contributions from Economics and Philosophy," *Economic Journal* 101: 751-785.

**1/12 Methodological Controversies in Public Economics**

Alternative Positive and Normative Methodologies, importance of priors and honesty in research, errors and replicability, differences in models of man.

- i. Buchanan (1964)
- ii. Rawls (1955)
- iii. Leamer (1983)
- iv. Kirzner (1994)
- v. Makowski and Ostroy (1995)
- vi. Frey (2002)
- vii. Congleton (1984, 2007)
- viii. Paldam and Doucouliagos (2008)

**1/24 Interest Groups and Regulation**

Interest Group Models versus Public Interest Models of Regulation. Positive and Normative rationales for Regulation. Natural and UnNatural Monopolies, Anti-trust versus Patents, Tariff Policies and other Barriers to Entry

- i. Stigler (1971)
- ii. Peltzman (1976)
- iii. McChesney (1987,1999)
- iv. Wood and Anderson (1993)
- v. Hillman and Ursprung (1987)
- vi. Grossman and Helpman (1994, 2002)
- vii. Heckman and Pages-Serra (2002)
- viii. Nordhaus (1967)
- ix. Lerner (2002)

**2/14 Environmental Political Economy**

Interest Group Models versus Public Interest Models of Regulation. Externalities and Commons Problems. Economic and Ideological Special Interests in non-optimal Solutions, Bureaucracy as an Institutionalized Interest Group, Niskanen Model.

- i. Buchanan and Tullock (1975)
- ii. Sandmo (1975)
- iii. King (1986)
- iv. Zywicki (1998)
- v. Dryzek (1997)

- vi. Congleton (1992, 1995, 2001)
- vii. Sandler and Murdock (1997, 1998)
- viii. Fredriksson (2003)

## **2/28 Rent Seeking, Rent Extraction, and Institutions**

Toward a General Model of Interest Groups, Corruption, and Economic Efficiency: Rent-Seeking Losses, Rent Extraction, Corruption as the Illegal Portion of Rent Seeking, Effects of Institutions on Rent-Seeking and Rent-Extracting activities.

- i. Tullock (1967, 1980)
- ii. Congleton (1980)
- iii. McCHesney (1987)
- iv. Gilbert and Shapiro (1990)
- v. Paldam (2002)
- vi. Congleton and Lee (2009)
- vii. Congleton, Hillman and Konrad (2009)

## **3/22 TAKE HOME EXAM DUE**

### **4/3 Law, Politics, and Economic Development**

Role of legal and political institutions in economic development. Culture and Trust as a transactions cost reducing “social capital.” Empirical evidence on the effects of institutions and culture on economic development.

- i. Becker (1968)
- ii. Demsetz (1970)
- iii. Goetz (1984)
- iv. Leame (1983)
- v. Jolls, Sunstein and Thaler (1998)
- vi. Knack and Keefer (1995, 1997)
- vii. Sokoloff and Engeman (2000)
- viii. Rodrik et. al. (2002)
- ix. Acemoglu and Johnson (2005)
- x. Congleton and Swedonborg (2006)
- xi. Congleton (2011)
- xii. Paldam and Bjornskov (2012)

### **4/12 International Public Economics: Transnational Externalities and Organizations.**

Treaties (Coasian Contracts) as solutions to international externality problems. Regulatory externalities. International organizations as treaty organizations. Principal agent problems in international organizations.

- i. Persson and Tabellini (1999)
- ii. Paldam (2002)
- iii. Sandler and Murdock (1997, 1998)

- iv. Congleton (1992, 2006, 2006)
- v. Paldam and Doucouliagos (2008)
- vi. Dreher (2009)

**4/26            Workshop for Papers (Student Presentation 15 minutes each + 5 minutes of discussions)**

**4/28            Overview of Class: Forest from the Trees**

**5/3             15-22 Page paper due on an applied public economics topic due at roger.congleton@mail.wvu.edu**

\*\* some dates may be changed during the semester