

**Public Economics II**

Instructor: Professor Roger Congleton

Office: 405 B&amp;E

Office Hours: Monday, Tuesday, Wednesday 2:30-3:30, and most other times by appointment.

E-mail: roger.congleton@mail.wvu.edu

Website: RDC1.net

**Suggested Texts:**

Hillman, A. L. (2009) Public Finance and Public Policy, Responsibilities and Limitations of Government. Cambridge: Cambridge University Press.

Tanzi, V. and L. Schuknecht (2000) Public Spending in the 20th Century: A Global Perspective. Cambridge: Cambridge University Press.

Besley, T. and T. Persson (2011) Pillars of Prosperity. Princeton: Princeton University Press.

Congleton, R. D. and B. Swedenborg (2006) Democratic Constitutional Design and Public Policy. Cambridge Mass: MIT Press.

<b>Grades:</b>	1 Take-Home Exam	37%
	1 Final Research Paper (14-20 pages)	45%
	8 1-pagers	8%
	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>
--------------	---------------	-----------------

**I. An Introduction to Public Economics**

1/8	(1) Introduction to Public Economics II	AH: 1, T&S: 1-3
-----	---	-----------------

Measuring the size of the Public Sector, Trends in government finance and regulation in the West.

Methodological Issue: Can public policy ever be regarded as an exogenous variable? If public policy is endogenous, how should it be modeled and estimated? On the meanings of causality and its relevance for modeling and estimation. Models as tractable simplifications. The Growth of Government in the 20th century. The public choice perspective on public economics. (1 lecture)

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

### 1/10      **(2) Neo Classical Public Economics**

The geometry and mathematics of the net benefit maximizing model of rational choice. Competitive markets, efficiency, taxation, the burden of taxation. Externalities, Coase and Pigou. Pure Public Goods and Club Goods. Samuelson and Lindahl on efficient fiscal systems. (4 lectures).

- i. Samuelson and Public Goods (1954)
- ii. Coase (1960)
- iii. Demsetz (1970)
- iv. Ostrom (1991, 2005)

### 1/24      **(3) Rational Choice Politics and Democratic Public Policy**

From Public Finance to Public Choice and Political Economy / Taking into account the endogeneity of Fiscal Policy (.5 lecture)

The median voter theorem. Electoral models of public policy formation, Rational Ignorance and the Condorcet Jury Theorem. (2.5 lectures). Interest Group models of public policy formation: Olson, Niskanen, Chicago, and Virginia models/ Rent Seeking and Rent Extraction (2 Lectures)

Public Choice and the Normative Properties of Government Policies and Finance, why public policy is less than perfect (2 lectures)

- i. Buchanan (1949)
- ii. Downs (1957, 1960)
- iii. Median Voter Model: Congleton and Bose (1980/2010)
- iv. Olson (1965)
- v. Tullock (1967)
- vi. McChesney (1987)
- vii. Kothenburger (2005)
- viii. Congleton and Hillman (2015)
- ix. Congleton (2015)

**2/19 (4) Constitutional Political Economy**

Constitutional Analysis: Two levels of analysis: the choice of rules and behavior under the rules. Federalism, gradual emergence of democracy and public finance, empirical evidence

Economic Freedom and Polity indices as problematic efforts to measure "rules of the game." (3 Lectures).

- i. Buchanan and Tullock (1962)
- ii. Buchanan and Brennan (2006)
- iii. Buchanan and Congleton (1998/2006)
- iv. Olson (2000)
- v. Congleton (2011)

**2/19 Take Home Exam Distributed via website**

**2/26 Take Home exam Due**

**3/5 (5) Risk, Uncertainty and the Demand for Social Insurance**

Private and Public risk reducing rules and other strategies. Why do private insurance markets under provide insurance? the lemons market and adverse selection. Governance as partial solution for risk and uncertainty. The civil law as risk management. (2 lectures).

- i. Knight (1921)
- ii. Congleton Manuscript (Ch 1-3)
- iii. Akerlof (1970), Pauly (1986)
- iv. Origins of a Liberal Welfare State
- v. Feldstein (1974)
- vi. Browning (1975)
- vii. Cutler and Johnson (2004)
- viii. Congleton and Bose (2010)

**Spring Break**

**3/19 (6) Uninsurable Risks and the Demand for Crisis Management**

Difference between insurable and uninsurable risks, Beyond the normal insurance market problems: unknown risks and uncertainty. What happens when insurance is sold or provided for such risks? AIG and Ireland's banking crisis. Can one have too much insurance? (1 lecture)

- i. Congleton Manuscript (Ch. 1-5)
- ii. Congleton (2012)

**3/21 (7) Culture and Public Policy**

Culture, broadly interpreted affects public policies in a number of ways. Norms and Ideology affect civil law and political institutions and also affect the demand for various public policies directly. Both theory and empirical evidence suggests that culture matters. This area of research adds sociological factors to the economic and political factors taken under consideration by political economy.

3/28 **Class Round Tables** on selected readings in public economics (To be determined)

4/18 **Overview of Class: Forest from the Trees**

4/23-5 **Student Presentation / Paper Work shop**

5/2 **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 because of travel obligations