Public Economics 1

Econ 741
WVU, Fall 2026
Professor Roger D. Congleton

Class Room and Time: Reynolds Hall 5201, **Class Time**: M: 4:00 - 6:45

Office: 4131 Reynolds Hall
Office Hours: Tuesday and Wednesday 2:30-3:30 and by appointment
Email Address: Roger.Congleton@mail.wvu.edu
Class Website:
http://rdc1.net/class/Public%20Economics%20(grad)/Index.html

Optional Texts: Hillman, A. L. (2019) *Public Finance and Public Policy, Responsibilities and Limitations of Government*. Cambridge: Cambridge University Press. (Earlier editions are fine.) [available in kindle format]

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

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

Required Text **Class Notes linked to the class website,** (may be updated during the semester. See RDC1.net for the class website.)

Course Description ECON741 Analyzes the economic role of government in a mixed economy with regard to topics such as social choice mechanisms; fiscal federalism; tax revenue; resource allocation; and the distribution of income.

Learning Objective Students should finish the course with sufficient knowledge to undertake their own independent research in a subset of the topics reviewed.

Date	Subjects	Readings
8/24	**(1a.) Introduction**: What is Public Economics? **(i.) Public Economics** as the effects of public policy on economy. Relevance today vs 1900. Where do public policies come from? Public Choice and Constitutional Political Economy. A short history of government finance and regulation in the West. **(1b.) Methodological Distinctions:** Positive and normative analysis. Methodological Individualism. Normative theories of individual behavior. Evaluating social states: Utilitarianism, Welfare Economics, the Pareto principles, and Contractarianism, Cost-Benefit Analysis as a rationales for "ideal" public policy. (1c.) A Short Review of Undergraduate Public Finance, The geometry of public economics: the net benefit maximizing model of rational choice, demand and supply, markets, efficiency of markets, effects of taxation on social net benefits, tax burden and burden shifting, voter demand for public goods.	AH: Preface, 1, 2; T&S 2, 5 GAO overview of US Gov Finances (report) US Statistical Abstract World Bank Statistics Alfred Buchanan (1991, 1964, 1949) Congleton (2018, 2019, 2020) See also my undergraduate set of class notes.
	Part I: Governing Policies and the Scope of Markets	
8/31	**(2.) Microeconomics, Taxation, Regulation and the Extent of Markets** **(2a.) Exogenous Taxation:** Calculus-based characterizations of demand, supply, and tax burden.--a partial equilibrium approach. Spillover effects across markets, Effects of	Congleton: Ch 12 AH: 1, 2, 3, 4 Browning (1976)

	Income taxes with and without analysis of effects on labor supply. (The mathematics behind the tax incidence diagrams.) Subsidies as negative taxes.	
8/31	**(2b.) Regulation, Costs, and Market Supply** The cost increasing effects of regulation. Effects on the extent of markets. Regulations as a constraint on production methods. Regulations as a constraint on entry. Regulation as a constraint on consumption.	Posner (1975) Gray (1987) Crain and Crain (2014) Congleton: Ch 12 AH: 1, 2, 3, 4
8/31	**(2c.) Markets with Less than Uniform Taxes and Regulations** Unequal regulation as a "subsidy" for the less regulated. Unequal taxation as a "subsidy" for the least taxed. Effects on market equilibria.	Alexander and Moses (1963) Congleton: Ch 12 Chambers and O'Reilly (2022a, 2022b)
	Part II: The Political Economy of Governing Policies	
9/7	**Labor Day, No Class**	
9/14	**(3a.) Endogenous Taxation: The Electoral Demand for Government Services** (i) The median voter model as a Nash equilibrium/not a representative agent. (ii) Economics of voter ideal points and demands for public services. (iii) The simultaneous determination of demand for and financing of government services. (Effects of fiscal illusion)	AH: 9.1 Downs (1957, 1960) Coughlin and Nitzan (1981) Hettich and Winer (1988) Hettich et al (1998) Congleton, Chapter 15
9/14	(3b.) The Electoral Demand for Tax-Financed Services, Private Goods, Public Goods, Social Insurance, and Transfers: The spectrum of good types. The demand for government services as a demand for taxes. Choosing among services and delivery systems. Differences between demands for Social Insurance and Transfers.	AH 7.3, T&S 1 Feldstein (1974) Browning (1975) Congleton and Bose (2010) Jacobs et al (2021)
9/14	**(3c.) Endogenous Regulation**: The Electoral Demand for Various Kinds of Regulation (i.) Externalities and the median voter's demand for regulation. (ii.) Democratic vs. authoritarian institutions and the enactment of environmental regulation. (iii.) Applications: pollution control, global warming treaties, wildlife management, undersea oil rights, and siting disputes (NIMBYs).	Abrams and Lewis (1987) Congleton (1992) Congleton, Ed. (1996) Batinti and Congleton (2018)
9/21	**(4.) Endogenous Regulation**: Interest Groups and Regulation (Chicago Political Economy) Olson's logic of collective action and the free-rider problem in group formation. Stigler's capture theory: regulation as a good acquired by organized interests. Peltzman's political-support function: balancing producer profits against voter/consumer welfare. Becker's model of competition among pressure groups and the role of deadweight costs. Tullock's rent-seeking: the welfare costs of monopoly, tariffs, and theft, and efficient rent-seeking contests.	Olson (1965) Stigler (1971) Peltzman (1976, 2022) Becker (1983, 1985) Tullock (1967, 1980) Congleton (2026)
	Part III: Welfare Economics and Assessments of the Quality of Governance	
9/21	(5a.) Choosing among Revenue Sources: Normative Principles of Tax Analysis: The conflict among taxpayers, points of agreement. Utilitarian analysis of tax systems: dead-weight loss in the long and short run; neutral taxes, equitable taxes, and excess burden. Social Net Benefits as an estimate of Aggregate Utility **(5b.) Applications and Critiques of Utilitarian Analysis**: Mainstream (Utilitarian) theories of optimal taxation: Utilitarian arguments favoring progressive taxation--and limitations of that argument. Contractarian critiques of utilitarian analysis. generality norms.	AH: 1, 2, 8, 9 US Tax History Tax Data: Overviews Congleton Chapter 18 Samuelson (1954, 1955) Mirrlees(1976) Brennan and Buchanan(1980) Samuelson (1986) Mankiw, Weinzierl, and

	Applications: property taxes (Georgist?), excise taxes, head taxes, and income taxes. Types of governments and "optimal" taxation. Voter interests in transparent tax systems.	Yagan (2009), Congleton (2024)
9/28	**(6a.)** [Slack in case we are running a bit behind] Informational limits of Democracy.	Congleton (2007)
9/28	**(6b.) Review for Exam**	Study Guide 1 Sample PF Examination
10/5	Exam 1 **(in class)** (5 Pages of Own Hand-Written Notes Allowed / Blue Books)	
10/9-11	**Fall Break**	
10/12	**(7a.) Exams Returned and Reviewed**	
10/12	(7b.)Choosing among Financing Systems:**The Political Economy of Public Debt:** . Trends in deficits and debt. Why wouldn't the median voter prefer debt finance to taxation? Advantages and disadvantages of debt finance. Ricardian equivalency, burden smoothing, and inter-generational burden shifting. Debt crises. Appendix: The Logic and Geometry of Expenditure Analysis. Is a Sustainable Welfare State Possible?	AH: 2.1, 3.5, 11 T&S 3, 5 Data from the Statistical Abstract of the United States Barro (1974) Buchanan (1976) Buchanan and Roback (1987) Reinhart and Rogoff (2010) Reinhart, Reinhart, and Rogoff (2012)
	Part IV: Public Policies in Settings with Multiple Governments	
10/19	**(8.)** Fiscal Federalism Relationships Between Governments. Voting with one's feet (the Tiebout Model). Yardstick Competition. Oates' Decentralization Theorem. Regional externalities, economies of scale, regulatory externalities, and optimal federalism. Intergovernmental grants. The pork barrel dilemma. International treaties as Coasian contracts.	AH: 3.1, 3.2, 4.2 T&S 8 Tiebout (1956), Oates (1972) Mueller on Federalism (2006) Shleifer (1985), Belleflamme and Hindriks (2005), Inman (2008), Congleton (2022)
10/26	**(9a.) International/Comparative Political Economy: Treaties.** International Externalities, Regulatory Externalities, Absence of national solutions, International Treaties as Coasian Contracts, Self-Enforcing? or Free Riding. International Treaty Organizations. Illustrating treaties and results. **(9b.) International/Comparative Political Economy: Democracies.** Institutions affect policy choices at the margin. Authoritarian versus democratic public policy making. Differences among democracies: electoral system, organization of legislature/parliament, centralization. The effects of electoral systems, bicameralism, presidential and prime ministerial institutions on government expenditures, taxation and debt. (optional divided government slides) (optional rise of welfare state slides)	Congleton (1992, 1995, 2020) Sandler, Murdoch, and Sargent (1997) Bernholz, et al (2004) Batabyal (2017) AH: 5, 2 Poterba (1995) Knack and Keefer (1995) Persson, Roland, and Tabellini (2000) Doucouliagos and Ulubasoglu (2008) Congleton and Yoo (2018)
11/2	**(10.)** Student Presentations of selected recent empirical papers: Weaver, J. (2021). Jobs for sale: Corruption and misallocation in hiring. *American Economic Review, 111*(10), 3093–3122. Bertrand, M., Bombardini, M., Fisman, R., & Trebbi, F. (2020). Tax-exempt lobbying: Corporate philanthropy as a tool for political influence. *American Economic Review, 110*(7), 2065–2102.	

	Bertrand, M., Bombardini, M., & Trebbi, F. (2014). Is it whom you know or what you know? An empirical assessment of the lobbying process. *American Economic Review, 104*(12), 3885–3920.	
11/9	**(11a.) Forest from the Trees Lecture (11b.) Discussion and Review for Second Exam.**	**Study Guide 2**
11/16	**Exam 2 (in class) (Own Hand-Written Notes Allowed / Blue Books)**	old sample final exam
11/21-29	**No Class Thanksgiving Break**	
11/30	**(12a.) Exams Returned and discussed / (12b.) Paper Workshop**	
12/1, 2	Extended Office Hours 2:30-4:00 T-W, for Meetings and Advice on Final Papers	**Paper Topics**
12/7	**15-22 Page research paper** due midnight via e-mail on an applied public economics topic	

Course Appendix **Other Topics and Unused Lecture Notes of Possible Interest**

(A) Applications to Contemporary Public Finance Issues: Social Security and Medicare-Medicaid Nature of program, paygo, digressive taxation, Myth of the "Lock Box," SS History, History of Medicare, Rise of the Welfare State, Future of SS, Future of Medicare and Medicaid, Effects on Finances (GAO), Excel Data Set, OECD.	AH: 5.1, 5.B, 10.1, 10.B Congleton, Kim, and Marsella (2019) Congleton and Bose (2010)
(B) Applications to Contemporary Public Finance Issues: Deficits: the Politics of Deficits, Post WWII Trends in OECD countries. How to measure national debt: unfunded pension liabilities, insurance programs, and other promises. The roles of institutions in generating and reducing government debt. The pros and cons of balanced budget amendments. How does public debt produce a crisis? CBO on Debt (2008) , Excel Data Set , Estimates of "Unfunded" Pension Liabilities.	**T&S: 3, 5** CBO overview OECD deficits GAO 2006 overview of US Gov Finances
(C) Applications to Contemporary Public Finance Issues: Crisis Management and the Public Sector. Methods and problems: ex post insurance as crisis insurance, command and control, mistakes. Bailouts as ex post insurance (slides). Applications: terrorism, natural disasters, asset bubbles, and financial contractions.	AH: 7A, 7B, 7 Congleton (2005, 2006, 2009, 2011wp) Higgs (1989)

EC709 (A) Lecture on Theory and Estimation

EC709 (B) Lecture on the Significance of Priors

Grades:

Midterm Exam 30%
Endterm Exam 30%
Final Paper 30%
One Pages 10%
Bonus for helpful comments in class 5%