

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 finance. 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 finance 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 Finance

- 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?

### 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 this happened.

### 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?

### 4. Tax or Expenditure 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.]

## 5. Tax or Expenditure Reform

- Take a proposed tax or expenditure program and discuss its pro's and con's.
- For example, last year a presidential blue ribbon commission recommended capping the deductability of mortgages. In what ways would this reform have improved the tax system. Why was it politically dead on arrival?
- This year Gov. Huckabee recommended replacing the current tax with a “fair tax,” e.g. a consumption tax.
- Social security and public medicine programs are seriously under funded at present throughout the West. How might such fiscal imbalances (which may become fiscal crises) be addressed? Why haven't they?

## 6. Fiscal Federalism

- Develop an economic rationale for the optimal level of fiscal 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.
- 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 these alternatives? 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 Finance

- 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?
- To what extent does yard-stick competition affect national public policies?

## 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 finance topic can be tackled, but to be sure that your project is feasible in the time available, please discuss and clear your topic with me before going too far.**