EC866, Fall 2009  
Public Sector Economics (TTH 1:30-2:45)  
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(Office Hours) M 1-3 or anytime

COURSE DESCRIPTION

This is a course in public economics at the Ph.D. level. Public economics is the study of economic functions or roles of the government and its associated institutions. The purpose of this course is a brief theoretical survey of this field, and the topics includes public goods, externalities, and local public goods. Since one of the main objectives of public economic analysis is to evaluate government policies, general equilibrium theory and welfare economics play important roles. Thus, we will use general equilibrium analysis as the backbone of the course. However, we also use (non)cooperative game theory and voting theory as analytical tools to analyze political economy. We will discuss these tool kits in detail. This course is designed to provide theoretical tools and ideas that are useful in conducting research in applied microeconomic theory.

RECOMMENDED BOOKS

There are several graduate level textbooks in public economics. *Lectures on Public Economics* by Atkinson and Stiglitz (1980, McGraw Hill) is still the most comprehensive textbook in the field, but it is out of print. *Public Finance, Second Edition: A Normative Theory* by Dick Tresch (Academic Press 2002) also covers many topics with an emphasis on taxation and cost-benefit analysis. *Fundamentals of Public Economics* (MIT Press 1988) by Laffont provides the most theoretical treatment of public economics with a strong emphasis on informational asymmetry. *Public Economics* by Myles (Cambridge University Press 1995) provides a nice theoretical survey based on the standard general equilibrium approach. Regrettably, this book does not talk about local public goods economy. *Intermediate Public Economics* (MIT Press 2005) by Hindriks and Myles cover broader topics, but it is for advanced undergraduate or master level students. However, it may be useful to get a quick grasp of the field.
GRADE AND COURSE REQUIREMENTS

Tentatively, I would say that your grade will be based on your performance on a final exam, and writing a short paper (summary of an existing paper with some idea about its extension: 10 pages in double space). The exam will count for 60% of your course grade. The remaining 40% will be based on your paper. Your paper can be a referee report on a paper, but it should involve some additional thoughts on the topic (additional exercises, changing assumptions etc.) If you want to write a more ambitious proposal which will grow to a chapter of your dissertation, the paper does not have to be as polished. However, the idea must be interesting and needs to be seemingly implementable. In completing your writing assignment (in particular), please refer University’s academic integrity policy: http://www.bc.edu/offices/stserv/academic/resources/policy/#integrity

TOPICS (tentative plan: subject to change)

• Review of general equilibrium theory (Myles)
  – the Walras law
  – Edgeworth box
  – competitive equilibrium
  – first and second welfare theorems
  – the core

• Public goods (Myles)
  – Lindahl equilibrium and the core
  – Kolm triangle (W. Thomson, 1999, JPET)
  – TU game
  – voluntary contribution (Bergstrom et al. 1986, JPubE)
  – mechanism design

• Externalities (Myles)
- market with property rights
- Pigouvian tax
- general equilibrium with externalities

• Externalities: Coase’s theorem
  - TU game
  - Common agency game (Bernheim-Whinston, 1986, QJE; Grossman-Helpmann, 1994, AER)
  - Coalition bargaining (Chatterjee et al., 1993, RES; Ray, 2005 Oxford Univ Press)

• Local public goods
  - Tiebout’s conjecture (Tiebout, 1956, JPE; Hamilton, 1975, Urban Studies)
  - inefficiency (Flatters et al. 1974, JPubE; Bewley 1981, Em)
  - efficiency (Ellickson et al. 1999, Em; Allouch et al. 2009. JMathE; Konishi 2008 RSUE)
  - club goods (Berglas, 1976, AER; Scotchmer-Wooders, 1986, JPubE; Konishi, 2010, JapaneseER)
  - tax competition (Hindriks-Myles)
  - voting-sorting model (Westhoff, 1977, JET; Epple-Romer, 1991, JPE)