

**Economics 866.01
Public Sector Economics II**

Course Outline

This course will cover what used to be called the “new public economics”. The material is divided into two sections. The first deals with positive or descriptive analysis, principally the positive effects of taxation. The second section deals with normative or prescriptive analysis, principally the theory of the second best in the public sector context.

The bulk of the course will entail working through A. Atkinson and J. Stiglitz, Lectures on Public Economics. Though out of print and now almost twenty years old, Atkinson and Stiglitz remains the best book. An obvious weakness of the book is that it does not cover material post-1980, but it does provide a rigorous treatment of the basic theory which is appropriate for an introductory field course. I shall provide a few supplementary readings to indicate how the literature has advanced since A&S. One aim in writing the book was to develop students’ technical facility; as a result, many derivations skip intermediate steps, which can be frustrating for students (and the instructor!). There are also the typographical errors typical of first editions. I shall provide xerox copies of A&S

The section on regulated public enterprises will draw heavily on

J. J. Laffont and J. Tirole, A Theory of Incentives in Procurement and Regulation (Cambridge, MA: MIT Press, 1993),

which I strongly recommend that you purchase. There are several ‘open’ lectures. These will be devoted to topics chosen by the students.

Grading in the course will be determined on the basis of

Problem sets	20%
Paper	40%
Final	40%

On the problem sets, you are encouraged to work together but must write up answers separately.

Two types of paper are acceptable. The first is a short (10-15 double-spaced, typed pages) polished piece of work which extends a published paper on a topic in public economics in a modest way. Writing this type of paper will provide practice at writing in journal style. The second is a more ambitious, less polished piece of work. Writing this type of paper will provide an opportunity to explore a topic for a thesis essay. A straight literature review is not acceptable. The timetable is as follows:

Statement of topic	March 16
First draft	April 25
Final draft	May 2

(over)

If I think the topic is inappropriate, I will let you know by March 21. I will provide comments on first drafts “without prejudice” by April 27 (viz., I will base the grade on the final draft only).

The final examination will be held during the assigned examination period.

My office number is Carney 231; my office hours are WF 2:30-4:00 (you will find me less harried, WF 5:00-6:00); my telephone number is 552-3674; and my e-mail address is richard.arnott@bc.edu.

Economics 866.01
Public Sector Economics II

Tentative Lecture Schedule

January 17	Taxation and Labor Supply
January 19	Taxation and Saving
January 24	Taxation and Risk-Taking
January 26	Taxation and Risk-Taking/Taxation and the Firm
January 31	Taxation and the Firm
February 2	Tax Incidence
February 7	Tax Incidence
February 9	Taxation and Debt in a Growing Economy — Solow
February 14	Taxation and Debt in a Growing Economy — OG
February 16	Taxation and Debt in a Growing Economy — Other models
February 21	Welfare Economics — Burden of Debt
February 23	Optimal Commodity Taxation — Single-Person Ramsey Tax Problem
February 28	Many-Person Ramsey Tax Problem
March 2	Optimal Income Tax Problem — Stiglitz
March 14	Optimal Income Tax Problem — Mirrlees
March 16	Optimal Tax System
March 21	Public Sector Pricing and Production — Overview
March 23	L-T
March 28	L-T
March 30	Cost-Benefit Analysis — Drèze-Stern
April 4	Public Goods
April 6	Economics of pensions
April 11	Campaign finance reform
April 18	Political economy models in public finance
April 20	Corruption in government
April 25	Administrative capability in taxation
April 27	Economics of the VAT
May 2	No class