

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.

In response to student interest, the course will also provide a more in-depth treatment of the theory of public enterprises/regulated public utilities than is usual, as well the economic theory of public education. Treatment of these topics will require a somewhat streamlined treatment of some other material.

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. 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. Xerox copies of A&S are available at the Bookstore.

For the section on regulated public enterprises and public education, I shall prepare separate reading lists. 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)

and

W.K. Viscusi, J.M. Vernon, and J.E. Harrington, Economics of Regulation and Antitrust, 2nd edition (Cambridge, MA: MIT Press, 1995).

I strongly recommend that you purchase Laffont and Tirole. Copies of the book should be available at the Bookstore. If you are interested in obtaining a copy of Viscusi et al., you will probably have to place your own order.

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 would provide practice at writing in journal style. The second is a more ambitious, less polished piece of work. Writing this type of paper would 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	November 4
First draft	November 23
Final draft	December 7

If I think the topic is inappropriate, I will let you know by November 6. I will provide comments on first drafts “without prejudice” by November 30 (viz., I will base the grade on the final draft only).

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

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