Public Economics¹

Course description: Public economics provides the foundations of public policy evaluation for both high and low-income economies. Specific policy and public spending issues are grounded in microeconomic principles of efficiency and justice. Concepts covered include externalities, public and common property goods, public choice, benefit-cost analysis, rent-seeking and corruption, constitutional design, and the new institutional economics. Applications include policies for regulating pollution and environmental degradation, industry and trade, infrastructure, health care, education, housing, food security, and poverty alleviation in industrialized and developing economies. In each case, the method of accessing correct principles is emphasized, thus allowing students to tackle policy problems relating to their research interests and anticipated careers.

Text: Tresh, Public Finance

Other refs
Baker and Elliot (BE), Readings in Public Finance
Handbook of Public Economics, North Holland
Welfare Economics and the Minimal Role of Government (WEMRG; classnotes)

First-best Public Economics
I. The role of government in facilitating markets and redistributing income
   A. Fundamental theorems of welfare economics (1a and 1b).
   B. Tresh, chs 1 and 2.
   C. Arrow, "The Organization of Economic Activity: Market versus Non-market Allocation," (appendix to WEMRG)
   D. Rivlin and Buchanan, chs. 1 and 2 in BE²
   D. Study question: What is the role of convexity in 1a and 1b?
II. The role of government in redistributing income (psych)
   A. Tresh, chs 3 and 4
   C. Study question: Compare and evaluate the modernist (Samuelsonian and New New Welfare Economics) vs. the classical liberal (Aristotle-Wicksell-Buchanan) approach to equity
III. The role of government in correcting market failure: externalities
   A. Theorems 2a and 2b

¹ Proposed name to replace “Public Finance I.” The anticipated new name for Econ 651 (formerly “Public Finance II”) is “Public Finance and Political Economy”.

² Numbers added for reference.
B. Tresh, ch 5

III. The failure of modernism, and Coase to the rescue
   A. Pigouvian failures and the objectives for a Coase Theorem
   B. Coasean equivalency: theorems 3a and b.

IV. The role of government in correcting market failure: public goods
   A. Theorems 4a and 4b.
   B. Tresh, ch. 6

V. Production externalities and pollution solutions: Tresh chs. 7 and 8.

VI. The role of government in correcting market failure: decreasing cost industries, Trsh9

**Second-best Public Economics**

I. Overview
   A. Tresh, 12

II. Transfer payments: Tresh, chs 18, 19

II. Tresh, chs 20-22

III. Benefit-cost analysis
   A. Tresh, Part IV.
   B. Kaplow, *JEP*, 2004

IV. Policy analysis, general equilibrium considerations

V. Fiscal federalism
   A. Tresh, Part V.

**Third-best Public Economics**

I. Positive analysis
   C. R’set, The Political Economy of Corruption, UH, Econ WP97-10R

II. Normative analysis

² Optional
IV. Blackhole economics: infrastructure policy, prohibition, and security
   C. Arnott and Small, American Scientist, v. 82, 446-455, Sept., 1994.
   D. Johansson and Rset, Taxification of Cocaine
   E. Roumasset, Blackhole economics, UH Working paper 00-5
Requirements and grading:

   Midterm          24%
   Paper            24%
   Final            36%
   Homework+citizenship  16%

Office hrs: W, 1:30-3 in SSB 514