

Public Economics

- intensive core course, verbredingsvak iv - code 324BE

Contact and Resources:

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Any further information concerning this course will be communicated in class and via “blackboard” at <http://blackboard.ic.uva.nl/>

General: In this course different important topics in the realm of public economics will be studied. Firstly, the course will deal with questions of taxation in general equilibrium (as opposed to partial equilibrium), and questions of optimal taxation under perfect and imperfect competition, in a world where first best solutions are impossible to implement. Secondly, the course covers questions of public (i.e. collective) decision-making and investigates the pro and cons of the widely used majority-voting rule. As a third topic, the political economy of redistribution will be studied, which shall give us some insight why it is sometimes so difficult to perform a successful reform policy in democracies.

The course is organized as a combined lecture and discussion group, which implies that all participants’ active participation is required.

This course is a necessary prerequisite for participation in the master course on Public Economics given in the second quarter.

Literature: Since there is no good textbook at an appropriate level that covers the material of this course the used literature consists of a selection of (parts of) chapters from different books, articles in scientific journals, and the lecture notes. For the literature list see the following pages. Most of the articles and book chapters will be freely down-loadable; those which are not will be provided as copy-originals (except for the book of [Rosen (2005)]).

Date, time, and venue: The course takes place on Tuesdays and Wednesdays at 9:15-11:00, room E0.04.

Prerequisites: Knowledge of macro- and, in particular, microeconomics at a basic level is an absolutely necessary prerequisite. For an indication of the minimally required level of microeconomics see, e.g., the textbook *Microeconomic Theory* by Walter Nicholson.

Exam: The final exam is taken orally. (This may change if more students than expected are participating.) The final exam is good for 60% of the final grade. The date of examination will be announced during the course.

Further requirements:

1. Presence at and active participation in the classes.
2. One or two (depending on the total number of participating students) presentations of articles from the literature list with the heading “Topics”. The paper presentation is good for 10% of the final grade. Discussion of one or two papers presented by other students.
3. An essay (‘werkstuk’) of which a first version has to be finished by and presented in the last week of the course. This paper counts for 30% of the final grade. The paper has to be positively graded before the oral examination.
4. Each student’s seminar paper presentation will also be discussed by one or two fellow students.

Course Outline

Date:	Topic	Literature	Presenter
Week 1 Tuesday, Sept. 7	Organizational meeting General introduction to the course Overview of the content of the articles Allocation of articles to be presented		A. Riedl
Week 1 Wednesday, Sept. 8	Taxation - I Short repetition of taxation (basic course) Taxation - General equilibrium analysis	[Rosen (2005)] [Rosen (2005)]	A. Riedl
Week 2 Tuesday, Sept. 14	Taxation - II Taxation - General equilibrium analysis (cont.) Optimal taxation - Second-best analysis	[Rosen (2005)] [Sandmo (1976)]	A. Riedl
Week 2 Wednesday, Sept. 15	Taxation - III Optimal taxation - Second-best analysis (cont.)	[Sandmo (1976)]	A. Riedl
Week 3 Tuesday, Sept. 21	Taxation - IV Taxation - Imperfect market Taxation - Tax evasion Taxation - Environment	[Myles (1995a)] [Myles (1995b)] [Goulder (1998)]	students
Week 3 Wednesday, Sept. 22	Public decision making I On voting rules The majority rule	[Mueller (2003)] [Mueller (2003)]	A. Riedl
Week 4 Tuesday, Sept. 28	Public decision making II The majority rule (cont.)	[Mueller (2003)]	A. Riedl
Week 4 Wednesday, Sept. 29	Public decision making III Alternatives to the simple majority rule; theoretical and empirical studies of voter behavior, political processes, voter behavior, and decisions and incentives in public organizations	[Cablin & Nalebuff (1988)] & [Coggins & Perali (1998)] [Besley & Coate (1997)] [Persson (2004)] & [Persson & Tabellini (2004)] [Besley (2004)]	students

Course Outline

Date:	Topic	Literature	Presenter
Week 5 Tuesday, Oct. 5	Public decision making IV Alternatives to the simple majority rule; theoretical and empirical studies of voter behavior, political processes, voter behavior, and decisions and incentives in public organizations (cont.)	[Feld & Matsusaka (2003)] & [Pommerehne et al. (1997)] [Dixit (2002)] & [Fehr & Gächter (2000)]	students
Week 5 Wednesday, Oct. 6	Political economy of redistribution I General interest politics	[Persson & Tabellini (2000)]	A. Riedl
Week 6 Tuesday, Oct. 12	Political economy of redistribution II General interest politics (cont.)	[Persson & Tabellini (2000)]	A. Riedl
Week 6 Wednesday, Oct. 13	Political economy of redistribution III Reforming social insurance, political economy of labor markets, and experimental evidence on the pay-as-you-go insurance system	[Bovenberg (2000)] & [Rossignol & Taugourdeau (2004)] [Saint-Paul (1996)] [van der Heijden et al. (1998)]	students
Week 7 Tuesday, Oct. 19	Student paper presentation I		
Week 7 Wednesday, Oct. 20	Student paper presentation II		

References

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Taxation - General

- [Rosen (2005)] Harvey S. Rosen (2005). Public Finance, seventh edition, McGraw-Hill, pp. 292-300 (part on “general equilibrium analysis” in chapter 12), [pp. 349-354 (part on “tax evasion” in chapter 14), pp. 373-397 (chapter 16)]
- [Sandmo (1976)] Agnar Sandmo (1976). Optimal taxation: an introduction to the literature, *Journal of Public Economics*, 6, pp. 37-54. (down-loadable)

Taxation - Topics

- [Myles (1995a)] Gareth D. Myles (1995a). Public Economics, Cambridge University Press, chapter 11: imperfect competition, pp. 348-382. (copy)
- [Myles (1995b)] Gareth D. Myles (1995b). Public Economics, Cambridge University Press, chapter 12: tax evasion, pp. 383-411. (copy)
- [Goulder (1998)] Lawrence H. Goulder (1998). Environmental policy making in a second-best setting, *Journal of Applied Economics*, I, 2, pp. 279-328. (down-loadable)

Public Decision Making - General

- [Mueller (2003)] Dennis C. Mueller (2003) Public Choice III, Cambridge University Press, chapter 4: The choice of voting rule (pp. 67-78), chapter 5: Majority rule - positive properties (pp. 79-127) (copy)

Public Decision Making - Topics

- [Cablin & Nalebuff (1988)] Andrew Cablin and Barry Nalebuff (1988). On 64%-majority rule, *Econometrica*, 56, 4, pp. 787-814. (down-loadable)
- [Coggins & Perali (1998)] Jay S. Coggins and C. Federico Perali (1998). 64% majority rule in ducal Venice: voting for the doge, *Public Choice*, 97, pp. 709-723. (down-loadable)
- [Besley & Coate (1997)] Timothy Besley and Stephen Coate (1997). An economic model of representative democracy, *Quarterly Journal of Economics*, 108, 1, pp. 85-114. (down-loadable)
- [Persson (2004)] Torsten Persson (2004). Consequences of constitutions, *Journal of the European Economic Association*, 2, 2-3, pp. 139-161.. (down-loadable)
- [Persson & Tabellini (2004)] Torsten Persson and Guido Tabellini (2004). Constitutions and economic policy, *Journal of Economic Perspectives*, 18, 1, pp. 75-98. (down-loadable)
- [Besley (2004)] Timothy Besley (2004). Paying politicians: theory and evidence, *Journal of the European Economic Association*, 2, 2-3, pp. 193-215. (down-loadable)
- [Feld & Matsusaka (2003)] Lars P. Feld and John G. Matsusaka (2003). Budget referendums and government spending: evidence from Swiss cantons, *Journal of Public Economics*, 87, pp. 2703-2724. (down-loadable)
- [Pommerehne et al. (1997)] Werner W. Pommerehne, A. Hart and F. Schneider (1997). Tragic choices and collective decision making: an empirical study of voter preferences for alternative collective decision-making mechanisms, *The Economic Journal*, May, pp. 618-635. (down-loadable)

[Dixit (2002)] Avinash Dixit (2002). Incentives and Organizations in the Public Sector: An Interpretative Review, *Journal of Human Resources*, 37 pp. 696-727. (down-loadable)

[Fehr & Gächter (2000)] Ernst Fehr and Simon Gächter (2000). Fairness and Retaliation: The Economics of Reciprocity, *Journal of Economic Perspectives* 14(3), pp. 159-181. (down-loadable)

Political Economy of Redistribution - General

[Persson & Tabellini (2000)] Torsten Persson and Guido Tabellini (2000). Political economics: explaining economic policy, MIT Press, chapter 6: general-interest politics pp. 117-158. (copy)

Political Economy of Redistribution - Topics

[Bovenberg (2000)] Lans Bovenberg (2000). Reforming social insurance in the Netherlands, *International Tax and Public Finance*, 7, pp. 345-368. (down-loadable)

[Rossignol & Taugourdeau (2004)] Social insurance with representative democracy, *Economics Letters*, 82, 127-134. (down-loadable)

[Saint-Paul (1996)] Gilles Saint-Paul (1996). Exploring the political economy of labour market institutions, *Economic Policy*, 23, pp. 265-315. (copy)

[van der Heijden et al. (1998)] Eline van der Heijden, E. Nelissen, Jan Potters and Harrie Verbon (1998). Transfers and the effect of monitoring in an overlapping generations experiment, *European Economic Review*, 42, pp. 1363-1391. (down-loadable)

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