This is a graduate course in public economics. Economics 701 and 703 are prerequisites; you cannot take the course for credit if you have not taken these courses. 750A is taught by Professor Andrew Postlewaite and 750B is taught by Professor Holger Sieg; you can take one or both of the sessions. The class will meet Tuesdays and Thursdays 1:30 - 3:00 in McNeil 410.

Econ 750A begins where the welfare theorems from Econ 701 end. Those theorems provided sufficient conditions under which market might be expected to generate efficient outcomes. This course suggests that there are important economic problems in which the sufficient conditions fail, and analyzes how they might fail and what may be done to ameliorate the resulting inefficiency. The topics we cover and the main papers on those topics are listed below.

Part I
Econ 750A Postlewaite

- Room 456 McNeil building, phone: 898-7350, office hours: Friday 1:30-2:30 or by appointment

- There will be several problem sets for 750A.

- The topics we will cover are listed below in more or less the order in which we will cover them.
• Much of the reading will be journal articles. There are also notes on Blackboard mostly due to Hanming Fang.

• The following books contain material that is useful background for some topics and may be referred to:


  Required reading is marked as (R).
  My papers can be downloaded from my webpage.
  Papers marked with (B) can be downloaded from the Blackboard site for this course.

1. Public Goods

Reading:
  Public Economics Notes, Sections 1-3
  (MWG) Chapter 11.C and example 16.G.3

2. Implementation and Mechanism Design

In our first look at public goods, we discussed the problems with relying entirely on markets for decisions within society. In this section we develop tools that are useful in analyzing how well societies can determine public decisions according to fixed criteria.

2.1. Implementation with Complete Information

Reading:
Chapter 4


Hurwicz, L., E. Maskin and A. Postlewaite, “Feasible Implementation of Social Choice Correspondences by Nash Equilibria,” in *Essays in Honor of Stanley Reiter*, Kluwer Academic Publishers, 1995; pp 367-433. This paper deals primarily with questions of feasibility when the set of alternatives is not presumed to be known at the time the mechanism is chosen.

2.2. Implementation with Incomplete Information

Reading:

(R) MWG, Chapter 23.

(R)(B) Jackson, M. “Mechanism Theory”.


3. Positive Models of Public Good Provision

3.1. Positive Models of Private Provision of Public Goods

3.1.1. Static Models of Private Provision

Public Goods Notes, Section 4.1


3.1.2. Dynamic Models of Voluntary Provision


3.2. Provision of Public Goods with Private Information

Public Goods Notes Section 5

(R) Mailath, G. and A. Postlewaite, “Asymmetric Information Bargaining Problems with Many Agents,” *Review of Economic Studies*, 1990. (I list this as required but the notes cover nearly all the relevant material.)

3.3. Voting

MWG, Chapter 21D. This section deals with the median voter model and it’s limitations.

(R)(B) Jackson, M. “Mechanism Theory” Sections 1,2 and 3.4.
4. Social Arrangements


(B) Corneo, G. and Olivier Jeanne "Conspicuous consumption, snobbism and conformism," Journal of Public Economics Volume 66, Issue 1, October 1997, Pages 55-71. This paper presents a model generating conspicuous consumption similar to the model in Cole et al. in the Quarterly Review listed above.

(B) Corneo, G. and Olivier Jeanne "Status, the Distribution of Wealth, and Growth," Scand. J. of Economics 103(2), 283-293, 2001. This paper takes a fairly standard endogenous growth model and incorporates relative wealth concerns.

(B) Corneo, G. and Hans Gruner, "Social Limits to Redistribution," American Economic Review, Vol. 90, No. 5. (Dec., 2000), pp. 1491-1507. This is a nice application of a model in which a concern for relative ranking is taken to data.

(B) DellaVigna, Stefano, “Psychology and Economics: Evidence from the Field,” Journal of Economic Literature 47:2, 315-372, 2009. This is a nice survey of behavioral economics that discusses deviations from standard models in the
preferences, beliefs and decision making process employed by individuals.

(B) Dufwenberg, M., P. Heidhues, G. Kirchsteiger, F. Riedel and J. Sobel, “Other-Regarding Preferences in General Equilibrium,” mimeo, 2008. This is a recent paper that incorporates preferences that take into account other people’s welfare (other-regarding preferences) and addresses the question of when one can identify other-regarding preferences from market behavior, and when the conclusion of the First Welfare Theorem continues to be true.

(B) Heller, D. "Insuring Against Risk through Social Assets", mimeo, undated. A variant of the Social Asset paper we discussed in class.


(B) Hopkins, E. and Tatiana Kornienko, "Inequality and Growth in the Presence of Competition for Status," Economics Letters 93 (2006) 291-296. This is a short note that integrates a concern for relative position into a simple endogenous growth model. The authors show that redistribution to reduce inequality may increase inefficient conspicuous consumption.


(B) Sobel, J. "Interdependent Preferences and Reciprocity," JEL 93, 2005, pp 392-436. This is a very nice survey of work that aims at understanding the limits of the joint assumptions of rationality and individual greed in economics models.
4.1. Applications

4.1.1. Labor Supply


4.1.2. Investment


5. Public Choice

5.1. Models of Political Competition

Reading:

(R) MWG Chapter 21

(R) Notes, Part III Public Choice

Downs (1957)

Black (1948)


6. Discrimination


(A) Arrow


