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. The class will meet Tuesday and Thursday 10:30 - noon in McNeil 110.

Econ 750A begins where the welfare theorems from Econ 701 end. Those theorems provided sufficient conditions under which markets might be expected to generate efficient outcomes. This course deals with important economic problems in which those theorems don’t apply. The topics we cover and the main papers on those topics are listed below. Several more recent papers will likely be discussed; information on them will be provided later.

Course requirements include presentations of papers and a short paper at the end of the course.

- Room 458 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 lectures are from journal articles. There are notes on Canvas that are edited from notes taken some time ago by Hanming Fang and others. These notes have been edited and expanded substantially and the responsibility for anything in the notes is mine.
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:
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:
  * MWG, Chapter 23.
  * 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


Bramoulle, Y. and R. Kranton (2007), “Public Goods in Networks,” JET 478-494. This paper analyzes public good provision when agents are on a network and care about the contributions of those players with whom they are linked.

Bramoulle, Y., R. Kranton and M. D’Amours (2014), “Strategic Interaction and Networks,” AER 898-930. This paper is an extension and generalization of the previous paper.

3.1.2. Dynamic Models of Voluntary Provision


These two are the classic papers on the subject. Two recent papers on the topic are:


Battaglini, M., S. Nunnari and T. Palfrey, “Dynamic Free Riding with Irreversible Investments,” AER 2014, 2858-2871. This paper discusses the issue of reversibility (that is, the possibility of decreasing the accumulated contributions) and irreversibility.
3.2. Provision of Public Goods with Private Information

Public Goods Notes Section 5
* 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.
* Jackson, M. “Mechanism Theory” Sections 1,2 and 3.4.

4. Social Arrangements

* Bhaskar, V. "Sex Selection and Gender Balance" AEJ Micro, 2011.
* Corneo, G. and Olivier Jeanne "Social Organization in an Endogenous Growth Model," International Economic Review 40 (3), 711–726. This paper incorporates
relative wealth concerns in a more manageable model than that in Cole et al. (1992).

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.


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.

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.


Dufwenberg, M., P. Heidhues, G. Kirchsteiger, F. Riedel and J. Sobel, “Other-Regarding Preferences in General Equilibrium,” Review of Economic Studies 2011. 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.

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


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.


Postlewaite and Silverman, “Noncognitive Skills, Social Success, and Labor


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


Roussanov, N., "Diversification and its Discontents: Idiosyncratic and Entrepreneurial Risk in the Quest for Social Status," *Journal of Finance*, 2010. This paper builds on the idea in Cole Mailath and Postlewaite "Investment and Concern for Relative Position" that investors may prefer idiosyncratic risk to systematic risk when there is a concern about relative position.
5. Public Choice

5.1. Models of Political Competition

Reading:
* MWG Chapter 21
* Notes, Part III Public Choice


Black (1948)


Abstract: We develop a competitive equilibrium theory of a market for votes. Before voting on a binary issue, individuals may buy and sell their votes with each other. We define the concept of ex ante vote-trading equilibrium and show by construction that an equilibrium exists. The equilibrium we characterize always results in dictatorship if there is any trade, and the market for votes generates welfare losses, relative to simple majority voting, if the committee is large enough or the distribution of values is not very skewed. We test the theoretical implications in the laboratory using a continuous open-book multiunit double auction.
6. Discrimination


7. Papers for presentation


  * Moro Norman *JET* 2014.

