PUBLIC FINANCE
ECONOMICS 8221: PUBLIC EXPENDITURE
University of Colorado

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Fall 1990

Course Description

Economics 8221 is the first of a two-course graduate seminar in public economics. The focus of this semester is government expenditure. The key concept I will try to develop is the interactive aspect of the economy and the public sector. The older view of the role of the government is separated from the more modern view by the recognition that political decisionmakers do not operate in a vacuum. There will be considerable reference to game theoretic concepts throughout the course. I will develop the concepts as we go along.

Course Requirements

There will be a comprehensive final exam worth up to 50% of the total grade, a research paper and a class presentation of your research work worth up to 40% of the total grade, and a shorter writing assignment to make up the other 10% of your grade. There is no midterm but I will distribute a "practice midterm" for you to work through. I will grade it for you, if you wish, but it will not count towards your course grade.

Text

Course Packs - I will have these done through the copy center and you will pay me directly.

Outline and Readings
I. The Public Sector

a. The Rationale and Role for Government: here we discuss the conventional arguments for government based on "market failures" and we discuss some alternative stories.
Readings:
B&W chapters 1 - 3
Mueller, Chapters 2 and 3.
b. The Problems in Detail: here we will discuss public goods, club goods, externalities, and common property resources. These are related concepts and we will explore the overall characteristics and spend a little time on specific features of each. The readings listed here are meant to provide you with suggestions should you wish to write your paper on this topic. We will not cover all of the listed readings in the lectures. Some issues to think about are the private provision of public goods, the role of the non-profit sector, and solutions to externalities.

i. Pure Public Goods
   Readings:
   B&W Chapter 4
   Bergstrom, T. "Lectures in Public Economics" Lectures 1 & 2

ii. Externalities
    Readings:
    B&W chapter 5
    Cornes and Sandler, chapters 3 and 4

iii. Club Goods
    Readings:
    Cornes and Sandler chapters 10 and 13

iv. Common Property Resources
    Readings:
    B&W chapter 5 sect 4
    Ostrom, E. "Institutional Arrangements and the Commons Dilemma," working paper Indiana University.
II. The Government as an Actor. Here we will discuss the positive and normative theories of government behavior. We will address the questions of the choices of policies and the implementation of these. Issues worth investigating here are voting for tax increases at the local level, institutional arrangements in a bureau or set of bureaus, and (if you are in love with technology) the problems of mechanism design.

i. Preference Revelation and Free Riding
Readings:
B&W chapter 6 sect 3
Mueller, chapter 8

ii. Voting
Readings:
B&W chapter 6 sect 2
Mueller, Chapters 4, 5, and 7
Mueller, Chapters 10, 11, and 12

iii. Bureaus
Readings:
Mueller, chapter 14
McKee, M and R. Wintrobe, "Organizations in Decline: Parkinson's law in theory and action," working paper, University of Western Ontario
Bagnoli and McKee, "Controlling the Game: political sponsors and bureaus," working paper, University of Michigan

iv. Growth of Government
Readings:
B&W Chapter 3 (last part)
III. The Purely Normative Side. Here we will cover cost benefit analysis as a policy instrument. The key issues in this area have been (and continue to be) estimation of benefits and the choice of discount rate. The benefits measurement issue is one which has received a lot of attention at CU through the work of Schulze in Contingent Valuation and of Howe in water resource allocation. We will look at two surveys of CBA and then try to consider a topic or case study.


IV. Federalism. Here we will cover some of the elements of fiscal relations in federal states. Intergovernmental grants, competition between jurisdictions, and the role of fiscal mobility will be considered.

Readings:
B&W Chapter 15


Note Re Growth of Government: There is an interesting debate between the right wing school and the left wing school regarding the responsibility for the growth of the government. This would make a good paper if anyone wants to tackle it. The initial readings would be:

Buchanan, J. and R. Wagner, Democracy in Deficit, Academic Press, 1977