This is a course in public sector economics at the sub-national level, and is intended primarily for graduate students in economics. Others are welcome but with the consent of the instructor. Using the tools of microeconomics, we will examine the provision and allocation of local public goods and services. I will give two lectures of background at the start, since you haven’t had the opportunity to take the survey public sector economics course. This class will concentrate almost exclusively on empirical tests of the underlying theory. The relevant theoretical articles are included on the reading list for your reference, and may also be incorporated into the presentation of the empirical work. The reading list may not be complete, but it is also long to serve as a reference source. It is assumed that students in this course have a thorough understanding of micro theory, and are acquainted with the tools of statistical analysis. There is no textbook, although Public Sector Economics by Boadway and Wildasin (2nd ed.) and State and Local Public Finance by Fisher are excellent background materials—see me if you can’t find them. The papers I currently intend to cover in class are identified by an *, though I will announce any changes in advance of class (there will be pretty many, most likely!).

Notation in the reading list:

- AER = American Economic Review
- QJE = Quarterly Journal of Economics
- JPE = Journal of Political Economy
- NTJ = National Tax Journal
- PC = Public Choice
- REStat = Review of Economics and Statistics
- REStud = Review of Economic Studies
- RandJ = Rand Journal of Economics (formerly the Bell Journal)
- JEL = Journal of Economic Literature
- JLE = Journal of Law and Economics
- IER = International Economic Review
- JEP = Journal of Economic Perspectives
- EI = Economic Inquiry (formerly Western Economic Journal)

Requirements for this course include a midterm assignment and a final exam. The midterm assignment can be either an exam, or a written project, we will discuss the details in class. If you do a written project, there will be no incompletes unless a journal publication results. N.B. The final exam (required) is Thursday, May 12, at 2 pm.
A. Background (public goods, market failure (externalities, information, income distribution, decreasing costs, and US institutions)

  - Boadway and Wildasin, Chaps 3-4 (public goods), Chap 6 (preference aggregation), Chap 9 (taxes), Chap 10 (SWF), Chap 15 (Tiebout, Federalism).
  - G. Tullock, "Where is the Rectangle?" *PC*, April, 1997.

I. Background on Market Failures

1. Public goods
   - B, Ch 1-4

2. Externalities

3. Information and Uncertainty

4. Decreasing Costs (take IO and/or Law&Econ)
   - B. Ch 7

5. Distribution as a Public Good

6. Stabilization
II. An Introduction to the Local Public Sector (local public goods and local government behavior)

T. Borcherding and R. Deacon, "The Demand for the Services of Non-Federal Governments," AER, Dec 1972

III. What Are Local Public Goods?

A. Empirical Tests


B. Theoretical Background on Local Public Goods

M. Pauly, "Income Distribution as a Local Public Good," JPubE, 2, 1973

C. Costs and Production in the Local Public Sector

Grossman, Mavros, and Wassmer, “Public Sector Technical Inefficiency in Large U.S. Cities,”
E. Glaeser and A. Shleifer, “The Rise of the Regulatory State,” JEL, June, 03
J. Andreoni and A. Payne, “Do Government Grants to Private Charities Crowd Out Giving or Fund-Raising,” AER, June, 03

IV. Governmental Preferences
A. Voting

R. Pande, “Can Mandated Political Representation Increase Policy Influence for Disadvantaged Minorities?: India,” AER, Sept, 03
*C. Ferraz and F. Finan, “Exposing Corrupt Politicians: The Effects of Brazil’s Publicly Released Audits and Electoral Outcomes,” QJE, May, 08

B. The Technology of Voting as Demand Revelation

N. Schofield, “The Mean Voter Theorem,” REStud, July, 07
M. Rekklas, “The Impact of Campaign Spending on Votes in a Multi-Party Election,” RESStat, Aug, 07
Hatings, Kane, Staiger, and Weinstein, “The Effect of Randomized School Admissions on Voter Participation,” JPubE, June, 07
Gentzkow, “Television and Election Turnout,” QJE, Aug, 06
D. Coates and B. Humphreys, “Proximity Benefits and Voting on Stadium and Arena Subsidies,” JUE, Mar, 06

C. States and Provinces: Behavior of Aggregative Governments

S. Callander, “Electoral Competition in Heterogeneous Districts,” JPE, Oct, 05
*C. Shaltegger and L. Feld, “Do Large Cabinets Favor Large Governments? Evidence from the Fiscal Commons Problems for Swiss Cantons,” JPubE, Feb, 09

D. Cities and Parts of Cities: The Behavior of Smaller Governments

Brender, A., “The Effect of Fiscal Performance on Local Government Elections: Results from
Israel,” JPubE, Sept, 03.
REStat, May, 04
Reinikka and Svensson, “Local Capture: Evidence From a Central Government Transfer
Program in Uganda,” QJE, 119, May, 2004, p. 679
124, pp. 399–422
*M. Singhal, “Special interest groups and the allocation of public funds,” JPubE, 92, April,
Burge and Rogers, “Local option sales taxes and consumer spending patterns: Fiscal
interdependence under multi-tiered local taxation,” RSUE, 41, Jan, 2011, p.46

E. Theoretical Background

H. Bowen, "The Interpretation of Voting in the Allocation of Economic Resources," QJE, 1943,
also in Arrow and Scitovsky, AEA Readings in Welfare Economics (A&S).
G. Tullock, "Problems in Majority Voting," A&S.
Allocation by Direct Democracy," QJE, 1979 p. 563
K. Shepsle, "Institutional Arrangements and Equilibrium in Multidimensional Voting Models,"
D. McFadden, "The Revealed Preferences of a Government Bureaucracy: Theory," BellJE,
Autumn, 1975.

V. Residential Mobility and the Tiebout Process: Another View of Cities

A. Empirical Examination of Tiebout: Capitalization and Local Demand

W. Oates, "The Effects of Property Taxes and Local Public Spending on Property Values: A
H. Pollakowski, "The Effects of Property Taxes and Local Public Spending on Property Values:
A Comment and Further Results," JPE, August, 1973 (also see Oates, "Comment").
D. Bradford and H. Kelejian, "An Econometric Model of the Flight to the Suburbs," JPE, June,
Winter, 1976
*E. Gramlich and D. Rubinfeld, "Micro Estimates of Public Spending Demand Functions and
Test of the Tiebout and Median Voter Hypothesis," JPE, June, 1982
D. Rubinfeld, P. Shapiro and J. Roberts, "Tiebout Bias and the Demand for Local Public
D. Brasington, "Snobbery, Racism, or Mutual Distaste," RESStat, Nov, 03
*Rothstein, “Good Principals or Good Peers: Tiebout Equilibrium,” AER, Sept, 06

B. Theoretical Background


C. The Effects of Neighboring (Competing?) Governments

L. Ogawa, “A Note on Tax Competition, Attachment to Home, and Underprovision of Public
Goods,” JUE, Mar, 06


VI. Specific Local Public Goods
Benabou and Tirole, “Incentives and Prosocial Behavior,” AER, Dec, 06

A. Education

R. Murnane, The Impact of School Resources on the Learning of Inner City Children, Chap 2, 1977
T. Nechyba, “Mobility, Targeting and Private School Vouchers,” AER, March, 2000
Harris, Evans, and Schwab, “Education Spending in an Aging America,” JPubE, Sept, 01.
J. Runicke, “Competition on the Public School Sector,” JUE, May, 06

B. Welfare
DeCressin, J. “Regional Income Redistribution and Risk Sharing: Italy vs. Europe,” JPubE, Nov, 02., p. 287.
D. Austen-Smith, “Redistributing Income Under Proportional Representation,” JPE, Dec, 00.
*Benabou and Trieole, “Belief in a Just World and Redistribution Policies,” QJE, May, 06
*Gahvari and Mattos, “Conditional Cash Transfers and Income Redistribution,” AER, Mar, 07

C. Crime
B. Benson, D. Rasmussen, and D. Sollars, "Police Bureaucracies, Their Incentives, and the War on Drugs," PC, April, 1995
Wm Wheaton, “Metropolitan Fragmentation, Law Enforcement Effects and Urban Crime, JUE, July, 06
*D. Yang, “Can Enforcement Backfire: Crime Displacement in the Context of Customs Reform in the Phillipines,” REStat, Feb, 08

D. Low Income Housing

*Glaser, E, and E. Luttner, “The Misallocation of Housing Under Rent Control,” AER, Sept, 03

E. Health

J. Doyle, “Health Insurance Treatment and Outcomes: Auto Accidents as Health Shocks,” RESStat, May, 05
*A. Garber and J. Skinner, “Is American Health Care Uniquely Inefficient?” JEP, Fall, 08.

E. Externalities


F. Infrastructure

G. Stabilization