

**Economics 272B**  
**Public Economics II**

Prof. J. Brueckner

Fall 2023

This course will cover the economics of public goods, externalities, and related topics. The course will follow a lecture format, drawing on the articles from the following reading list, which contains hyperlinks. The course grade will be based on a research proposal and a take-home final exam.

READING LIST

0. *Partial Overview of Course Topics*

Agrawal, D., Brueckner, J. and M. Brühlhart, “[Fiscal Federalism in the 21<sup>st</sup> Century](#),” forthcoming, [Annual Review of Economics](#), sections 1-7, 12-14.

I. *Public Consumption Technologies*

Atkinson, A. and J. Stiglitz, [Lectures on Public Economics](#), Ch. 16-1.

Hindriks, J. and G. Myles, [Intermediate Public Economics](#), Ch. 5.1–5.2.

Brueckner, J., “[Congested Public Goods: The Case of Fire Protection](#),” [Journal of Public Economics](#), February 1981.

II. *Efficiency*

A. *Fixed Group Size*

Atkinson and Stiglitz, 16-2 (pp. 487-490).

Feldman, A., [Welfare Economics and Social Choice Theory](#), Ch. 6, pp. 106-112.

Hindriks and Myles, Ch. 5.4.

Samuelson, P., “[A Diagrammatic Exposition of a Theory of Public Expenditure](#),” [Review of Economics and Statistics](#), November 1955.

B. *Variable Group Size (Club Theory)*

Starrett, D., [Foundations of Public Economics](#), Ch. 4.

Hindriks and Myles, Ch. 6.1–6.5.

Berglas, E. and D. Pines, “[Clubs, Local Public Goods, and Transportation Models: A Synthesis](#),” [Journal of Public Economics](#), April 1981 (Sections 1-3).

Brueckner, J., “[Tastes, Skills, and Local Public Goods](#),” [Journal of Urban Economics](#), March 1994

### C. *Public Good Spillovers*

Besley, T. and S. Coate, “Centralized versus Decentralized Provision of Local Public Goods: A Political Economy Approach,” Journal of Public Economics, December 2003.

### D. *Relevance for LDCs*

Mookerjee, D., “Political Decentralization,” Annual Review of Economics, 2015.

Arikan, G., “Fiscal Decentralization: A Remedy for Corruption?” International Tax and Public Finance, March 2004.

## III. *Voluntary Provision of Public Goods*

Hindriks and Myles, Ch. 5.3, 5.8.

Feldman, Ch. 6, pp. 112-114.

Cornes, R. and T. Sandler, The Theory of Externalities, Public Goods, and Club Goods, pp. 69-80.

Bergstrom, T., L. Blume, and H. Varian, “On the Private Provision of Public Goods,” Journal of Public Economics, January 1986.

Payne, A., “Does the Government Crowd-Out Private Donations? New Evidence from a Sample of Non-Profit Firms,” Journal of Public Economics, September 1998.

## IV. *Voting Equilibria*

Atkinson-Stiglitz, 10.2.

Hindriks and Myles, Ch. 5.5, and 10.1-10.4.

Feldman, Ch. 6, pp. 119-122, Ch. 9.

Bergstrom, T., “When Does Majority Rule Supply Public Goods Efficiently?” Scandinavian Journal of Economics, No. 2, 1979.

Brueckner, J., “Equilibrium in a System of Communities with Local Public Goods: A Diagrammatic Exposition,” Economics Letters, 1979.

Wheaton, W., “Land Capitalization, Tiebout Mobility, and the Role of Zoning Regulations,” Journal of Urban Economics, September 1993.

Brueckner, J., Lectures on Urban Economics, Ch. 8.

Banzhaf, H.S., and R. Walsh, “Do People Vote with Their Feet? An Empirical Test of Tiebout’s Mechanism,” American Economic Review, June 2008.

## V. *Models of Bureaucracy*

Hindriks and Myles, Ch. 4.4.1–4.4.4.

Niskanen, W., “The Peculiar Economics of Bureaucracy,” American Economic Review, May 1968.

Lee, K. “Bureaucrats and Tax Limitation,” Journal of Urban Economics, July 1993.

VI. *Tests of the Median Voter Model and Public Good Demand Estimates*

Atkinson-Stiglitz, 10-5 (pp. 321-329).

Borcherding, T. and R. Deacon, "The Demand for the Services of Non-Federal Governments," American Economic Review, December 1972.

Pommerehne, W. "Institutional Approaches to Public Expenditure: Empirical Evidence from Swiss Municipalities," Journal of Public Economics, April 1978.

McGuire, T., "Budget-Maximizing Governmental Agencies: An Empirical Test," Public Choice, 1981.

Bergstrom, T., et al., "Micro-Based Estimates of Demand Functions for Local School Expenditures," Econometrica, September 1982.

VII. *Mechanisms for Achieving Efficiency*

A. *Lindahl Taxes and Preference Revelation Mechanisms*

Feldman, Ch. 6, pp. 114-119, 122-134.

Atkinson-Stiglitz, 16-5, pp. 509-512, 16-6.

Hindriks and Myles, Ch. 5.6–5.7.

B. *The Tiebout Model and a Test for Public Sector Efficiency*

Tiebout, C., "A Pure Theory of Local Expenditures," Journal of Political Economy, October 1956.

Hindriks and Myles, Ch. 6.6–6.7, and Ch. 17.1–17.3, 17.6.

Scotchmer, S. and M. Wooders, "Competitive Equilibrium and the Core in Club Economies with Anonymous Crowding," Journal of Public Economics, November 1987.

Sonstelie, J. and P. Portney, "Gross Rents and Market Values: Testing the Implications of Tiebout's Hypothesis," Journal of Urban Economics, January 1980.

Brueckner, J., "A Test for Allocative Efficiency in the Local Public Sector," Journal of Public Economics, November 1982.

Bayer, P., Blair, P. and K. Whaley, "Are We Spending Enough on Teachers in the U.S.?", NBER Working Paper, 2021.

Borge, L.-E., J. Brueckner, and J. Rattso, "Partial Fiscal Decentralization and Demand Responsiveness of the Local Public Sector: Theory and Evidence from Norway," Journal of Urban Economics, March 2014.

Bayer, P. and R. McMillan, "Tiebout Sorting and Neighborhood Stratification," Journal of Public Economics, December 2012.

C. *Relevance for LDCs*

Mookerjee, D., "Political Decentralization," Annual Review of Economics, 2015.

Arikan, G., "Fiscal Decentralization: A Remedy for Corruption?" International Tax and Public Finance, March 2004.

VIII. *Externalities*

Brueckner, J., *Lectures on Urban Economics*, Ch. 9.

Varian, H., *Microeconomic Analysis*, 3rd Edition, Ch. 24.

Hindriks and Myles, Ch. 7.

Coase, R., "The Problem of Social Cost," Journal of Law and Economics, October 1960.

White, M. and D. Wittman, "Pollution Taxes and Optimal Spatial Location," Economica, August 1982.

IX. *Cost-Benefit Analysis*

Varian, Ch. 10.

X. *Tax and Welfare Competition and the Race to the Bottom*

Hindriks and Myles, Ch. 18.1–18.2.4, 18.5.

Zodrow, G. and P. Mieszkowski, "Pigou, Tiebout, Property Taxation, and the Underprovision of Local Public Goods," Journal of Urban Economics, May 1986.

Wilson, J., "Theories of Tax Competition," National Tax Journal, June 1999.

Brueckner, J., "Fiscal Decentralization with Distortionary Taxation: Tiebout vs. Tax Competition," International Tax and Public Finance, March 2004.

Brueckner, J., "Welfare Reform and the Race to the Bottom: Theory and Evidence," Southern Economic Journal, January 2000

Saavedra, L., "A Model of Welfare Competition with Evidence from AFDC," Journal of Urban Economics, March 2000.

Lyytikäinen, T., "Tax Competition Among Local Governments: Evidence from a Property Tax Reform in Finland," Journal of Public Economics, August 2012.

Parchet, R. "Are Local Tax Rates Strategic Complements or Strategic Substitutes?" American Economic Journal: Economic Policy, May 2019.

XI. *Testing the Premise of Tax Competition: Local Tax Rates and Investment*

Lutz, B., "Quasi-Experimental Evidence on the Connection between Property Taxes and Residential Capital Investment," American Economic Journal: Economic Policy, February 2015.

Mast, E., "Race to the Bottom? Local Tax Break Competition and Business Location," American Economic Journal: Applied Economics, February 2020.