

L32 3240 – The Political Economy of Public Goods

Fall 2011
Date and Time
Seigle L003
rholahan@wustl.edu

Robert Holahan
Office: Seigle 241
Office Hours: Tuesday 1-2 pm;
Wednesday 10-11 am

Important Dates

Paper Topic Due 9/15
Midterm Exam Due 10/18
Paper Due 12/1
In-Class Final 12/8

Public Goods are a class of economic goods in which it is difficult to exclude a particular individual from enjoying (or being harmed by) its use and in which the use of the good by one does not preclude its use by another. From national defense to lighthouses to clean air, public goods are all around us. Indeed, it may be said that the provision of public goods is one of the primary justifications for social structure or the existence of government coercion. Yet most people don't usually stop to think about the production of these goods—who provides them, who bears the costs of provision, and what alternative institutional arrangements are feasible. In this course, we will explore the theory and evidence of public good provision in a variety of settings.

This course explores the nature of public goods by investigating the economic and political rationales for providing them. We will explore the endogenous creation of public goods, such as the formation of mutually-agreed upon Constitutions to protect property rights, and the exogenous imposition of public goods, such as the regulatory framework that provides clean air. We will begin with the theory of economic goods and discuss the unique nature of public goods and the closely-related class of common pool resource goods compared to private goods. Through the use of efficiency analysis, we will explore the costs and benefits to alternative institutional arrangements, such as private property or market exchanges, to the government or voluntary provision of public goods.

Grading

Grading for this course will be based on performance on a take-home midterm exam, an in-class final exam, a written paper assignment (roughly 10 pages, double spaced), and through class participation. Grading will proceed as follows:

Class Participation:	15%
Midterm Exam (Take-Home):	25%
Final Exam (Take-Home):	25%
Final Paper:	35% (5% for Paper Topic, 30% for Final Paper)

Paper Assignment

Each student will be responsible for writing an original research paper that explores some facet of public goods or common pool resources. Paper topics will be due by mid-September, when

each student will turn in a 1-page description of the topic and a rationale for choosing it (5% of final grade).

Each paper should be an original piece of research investigating a topic of interest to the student. Papers should be 7-10 pages long, double spaced, with standard margins. Be sure to properly cite all sources used. The Paper is due at the *start* of class on December 1. More information about the paper will be provided in-class.

Midterm and Final Exams

The Midterm exam will be given as a take-home assignment. Students will have one week to complete the midterm from the time it is handed out in-class until it is due. More information regarding the Midterm will be given in-class.

The Final exam will be given as an in-class exam on the last day of regularly scheduled classes. This exam will be based on essays, short answers, and some problem solving questions.

Class Participation

This is a relatively small, seminar-styled course. If you do not attend class it will be obvious to the instructor. Furthermore, this sort of class works best when everyone comes to class having read the week's readings and is prepared to discuss the reading's content. To that end, each student will lead class discussion for one week's readings. It will be that student's responsibility to read each of that week's readings in-depth, and come to class prepared with a list of discussion questions and comments. Being the discussion leader counts as 5% of your final grade. The other 10% of your final grade determined through participation will simply be based on your attendance and your level of participation during class discussions.

Your grade for class discussion will be explained more in-depth in-class. The instructor reserves the right to determine your final participation grade based on a qualitative evaluation of the student's effort, rather than a demonstrable quantitative evaluation.

Readings

The following list of readings will be followed to the best extent possible throughout the semester. However, the instructor reserves the right to change weekly topics and/or readings as the course gets underway. If there is particular interest in one topic, we may spend additional time on that topic or if a particular reading proves popular, we may delve further into that topic as well. Any changes made to the assigned readings will be announced in-class.

Week 1—Course Introduction (8/30, 9/1)

Introduction to Course

Primer on Microeconomics: Supply and Demand, Markets, Pricing, etc.

Read: Doerring, Otto. 2007. "The Political Economy of Public Goods: Why Economists Should Care" (Presidential Address, Agricultural and Applied Economics Association)

Week 2—Types of Goods (9/6, 9/8)

Private, Toll, Public, Common Pool—Attributes of Goods

Market Failures & Economic Rationales for Non-Market Resource Allocations

Read: Baden, John. “A New Primer for the Management of Common-Pool Resources and Public Goods”.

Ostrom, Elinor. 2003. “How Types of Goods and Property Rights Jointly Affect Collective Action”

Coase, Ronald. 1960. “The Problem of Social Cost”

Week 3—Rethinking Property Rights (9/13, 9/15)

Paper Topic Due 9/15

Clearly Defined “Property Rights” vs. “Private Property”

Property Rights as a Public Good

Case Studies—US Ocean Fisheries: ITQs, Auction Markets, etc.

Read: Demsetz, Harold. 1967. “Towards a Theory of Property Rights.”

Barzel, Yoram. 1997. “Economic Analysis of Property Rights.” Chapters 1-2

Bromley, Daniel. 2009. “Abdicating Responsibility: The Deceits of Fisheries Policy”

Week 4—Theories of Rational Choice & Top-Down Provision of Public Goods (9/20, 9/22)

Introduction to Rational Choice Theory & Institutional Economics

Roving Bandits, Mafias, Benevolent Dictators, and Credible Commitment

Endogenous vs. Exogenous provision of Public Goods

Read: Olson, Mancur. 1993. “Dictatorship, Democracy, and Development”

North, Douglass 1980. “Structure and Change in Economic History.” Chapters TBD.

North, Douglass and Barry Weingast. 1989. “Constitutions and Commitment”

Week 5—Bottom-Up Organizing & Provision of Public Goods (9/27, 9/29)

Collective Action and Group Theory

Attributes of Groups (Group Size, Heterogeneity) and Effects on PG Provision

Prisoner’s Dilemma

Measuring Economic Performance—Social Optimality, & Economic Efficiency

Read: Olson, Mancur. 1965. “The Logic of Collective Action” Chapters 1-2

Estaban and Ray. 2001. “Collective Action and the Group Size Paradox”

Poteete, Amy. 2004. “Heterogeneity, Group Size, and Collective Action.”

Week 6—Common Pool Resources (10/4, 10/6)

Reflections on the Commons

Provision of Public Goods in Commons Settings

Dissecting the Appropriation vs. Production Dilemmas

Read: Hardin, 1968. “The Tragedy of the Commons”

Ostrom Chapters 1-2

Week 7—Solutions to the Commons Dilemma (10/11, 10/13)

Take-Home Midterm Assigned 10/11, Due 10/18

Case Studies in Successful Commons Management

Read: Ostrom, Chapter 3

Week 8—Public Choice Theory (10/18, 10/20)

Take-Home Midterm Due 10/18

Defining Public Choice Theory

The Calculus of Consent

Economic Theory of Democracy

Read: Ostrom, Chapter 4

Downs, Anthony. 1957. “An Economic Theory of Democracy” Chapters 1-2

Mitchell, WC. 1988. “Virginia, Rochester, and Bloomington: 25 Years of Public Choice in Political Science”

Week 9—Crafting Constitutions (10/25, 10/27)

Constitutions-as-Public Goods

US Constitutional Evolution

Multi-layered Governance, Federalism, and the Supply of Public Goods

Read: Madison, James. “Federalist X”

Bowles. 2008. “Policies Designed for Self-Interested Citizens may Undermine the “Moral Sentiments”: Evidence from Economics Experiments.”

Ostrom, Chapter 6

Weeks 10 & 11—Political Conflict and Public “Bads” (11/1, 11/3, 11/8, 11/10)

Environmental Dilemmas and the Role of Government

Pollution Regulation

Population and Food Production—the role of Public Goods

Modern Conflicts over Public Good Provision

Politics vs. Economics

Read: Ostrom, Gardner and Walker. 1992. “Covenants with and without the Sword: Self-Governance is Possible.”

Ruttan, Lore. 2008. “Economic Heterogeneity and the Commons: Effects on Collective Action and Collective Goods Provision.”

Miller and Hammond 1994, “Why Politics is More Fundamental than Economics”

Milinski et. al 2006. “Stabilizing the Earth’s Climate is not a Losing Game: Supporting Evidence from Public Goods Experiments”

Week 12—Experimental Investigations: What Have We Learned? (11/15, 11/17)

Field Experiments, Lab Experiments

Key Variables

Designing PG & CPR Experiments

Read: Ostrom, Gardner, Walker. 1994. “Rules, Games, and Common Pool Resources.”
Chapters 5,9

Isaac, Walker, Williams. 1994. “Group Size and the Voluntary Provision of Public Goods.”

Week 13—Experimental Investigations of Public Goods & CPRS (11/22)

No Class 11/24—Thanksgiving

In-Class Sample Economics Experiment: Location TBD

Read: No Readings

Week 14—Polycentrism (11/29, 12/1)

The Provision of Policing and Metropolitan Governance

Read: McGinnis, Michael, 1999. “Polycentrism and the Provision of Metropolitan Governance”
Ostrom, Tiebout, Warren. 1961. “The Organization of Government in Metropolitan Areas: A Theoretical Inquiry.”

Week 15 Perverse Consequences of Government Provision (12/6, 12/8)

Final Exam 12/8 In-Class

Course Wrap-up and Review for Final

Charitable Production of Public Goods

The case of National Public Radio—Is it a Public Good?

Perverse Incentives—Haifa Israel

Read: No Readings