

Spring 2011  
Professor Lise Vesterlund

Economics 2230  
Public Economics

### *Course Description*

Economics 2230 is one of the two courses which constitute the field in public finance. Both are survey courses which aim to present some of the areas of research and to provide a foundation for original research in the field. Econ 2230 will focus on the provision of public goods. We will first characterize what is required for efficient provision of public goods, and subsequently what neoclassical theory predicts for private provision of public goods. As behavior seems to deviate substantial from these predictions, we will explore alternative motives for giving, and we will investigate the extent to which fundraisers may design contribution environments which mitigate the underlying incentive to free ride. Our discussion will span the literature on classical preference revelation mechanism to mechanisms to commonly applied fundraising mechanisms. We will also discuss collective provision of public goods examining both the decision rules and the methods used for financing. Throughout the class we will be touching on the new and emerging field of behavioral public finance.

### *Lectures:*

Lectures are held on MW 11:00-12:15 in WWPH 4900.

### *Course Requirements:*

The class is intended for second year and upper level graduate students in the economics program. The requirements for the course are active class participation, class assignments, a 10-page paper and presentation thereof. Class participation and class assignments will account for 50% of the final grade, and the paper and presentation for 50%. The paper may be either a broader review of the main results of one of the areas presented in class, or it may be a careful proposal to do original research in public economics. A one page description and outline of your paper is due on March 2, the paper must then be presented in class, and the completed paper is due on April 20.

### *Office Hours:*

By appointment.

### *Learning Disabilities:*

If you have a learning disability please come see me as soon as possible so that we can make the necessary arrangements.

## *Readings*

Readings are listed on the following pages. A subset of the listed papers will be discussed in the lectures. Before each topic I will let you know which articles are required readings. We will not be using any one particular text book however material from the following books will occasionally be covered in class.

Atkinson, A. B. and J. E. Stiglitz, *Lectures on Public Economics*, McGraw Hill, 1986.

Auerbach, A. and M. Feldstein, eds., *Handbook of Public Economics*, North-Holland, volumes 1 (1985), 2 (1987), 3 (2002) and 4 (2002). [Note: You can find the full text online at:

<http://www.sciencedirect.com/science/handbooks/15734420>]

Boadway, Robin W. and David E. Wildasin, *Public Sector Economics*. Little Brown, 1984.

Cornes, R. and T. Sandler, *The Theory of Externalities, Public Goods and Club Goods*, McGraw Hill, 1996.

Laffont, J., *Fundamentals of Public Economics*, The MIT Press, 1988.

Mueller, D., *Public Choice II*, Cambridge, 1990

## 1. Public Goods

### 1.1. Neoclassical Theory

Bergstrom, T., and R. Cornes, "Independence of Allocative Efficiency from Distribution in the theory of Public Goods," *Econometrica*, 1983, 1753-1765.

Cornes and Sandler, Chapter 6, 7, 8

Foley, Duncan K., "Lindahl's Solution and the Core of an Economy with Public Goods," *Econometrica*, Vol. 38, No. 1 (Jan., 1970), pp. 66-72

Laffont, Chapter 2.1-2.4, 2.7

Lindahl, E., "Just Taxation - A Positive Solution," in Musgrave and Peacock, ed. *Classics in the Theory of Public Finance*, Macmillan, 1958, 168-176

Samuelson, Paul A. "The Pure Theory of Public Expenditure," *Review of Economics and Statistics*, Nov. 1954, 387-389

Samuelson, Paul A. "Diagrammatic Exposition of a Theory of Public Expenditures," *Review of Economics and Statistics*, 1955, 350-356.

Samuelson, Paul A. "Aspects of Public Expenditure Theories," *Review of Economics and Statistics*, 1958, 332-338.

Samuelson, Paul A. "Pure Theory of Public Expenditure and Taxation," in Margolis and Guitton, eds., *Public Economics*, MacMillan, 1969, 492-517

Smith, V. "The Principal of Unanimity and Voluntary Consent in Social Choice," *Journal of Political Economy*, 1977, 1125-1139

### 1.2. Privately Provided Public Goods

#### 1.2.1. Theoretical Analysis of Altruistic and Alternative Motives for Giving

Andreoni, J., "Privately Provided Public Goods in a Large Economy: The Limits of Altruism," *Journal of Public Economics*, February 1988, v. 35, 57-73

Andreoni, J., "Giving with Impure Altruism: Applications to Charity and Ricardian Equivalence," *Journal of Political Economy*, December, 1989, 1447-1458

Andreoni, J., "Impure Altruism and Donations to Public Goods: A Theory of Warm-Glow Giving," *Economic Journal*, 100, 1990.

Andreoni, J. and T. Bergstrom, "Do Government Subsidies Increase the Private Supply of Public Goods?," *Public Choice*, v. 88, 1996, 295-308

Andreoni, J., P. Brown, L. Vesterlund, "What Makes an Allocation Fair? Some Experimental Evidence," *Games and Economic Behavior*, 40, July 2002, 1-24.

Arrow, Kenneth, "Optimal and Voluntary Income Distribution," in Steven Rosenfield, ed., *Economic Welfare and Economic Organization of Soviet Socialism: Essays in Honor of Abram Bergson*, 1981

Becker, G., "A Theory of Social Interactions," *Journal of Political Economy*, 1974

Bergstrom, T., "Puzzles: Love and Spaghetti, The Opportunity Cost of Virtue," *The Journal of Economic Perspectives*, 1989, 165-173.

Bergstrom, T., L. Blume, and H. Varian, "On the Private Provision of Public Goods," *Journal of Public Economics*, 1986, v. 29, 25-49

Bernheim, B. "On the Voluntary and Involuntary Provision of Public Goods," *American Economic Review*, 1986, 789-793

Bilodeau, M, and A. Slivinski, "Toilet Cleaning and Department Chairing: Volunteering a Public Service," *Journal of Public Economics*, February 1996, 299-308.

Bliss, C. and B. Nalebuff, "Dragon Slaying and Ballroom Dancing: The Private Supply of a Public Good," *Journal of Public Economics*, 27, 1984, 772-87

Bolton, Gary E., and Axel Ockenfels, "ERC, A Theory of Equity, Reciprocity and Competition," *American Economic Review*, 90(1), 2000, 166-193.

Cornes, R., and T. Sandler (1984), "Easy Riders, Joint Production and Public Goods," *The Economic Journal*, 94, p.580-598.

Fehr, Ernst, and Klaus M. Schmidt, "A Theory of Fairness, Competition and Cooperation," *Quarterly Journal of Economics*, 114, 1999, 817-868.

Gaube, T., 2006. "Altruism and charitable giving in a fully replicated economy." *Journal of Public Economics* 90 (8-9), 1649 –1667.

Guttman, J., "Understanding Collective Behavior: Matching Behavior," *American Economic Review*, 1978, 251-255

Hirshleifer, J. "From Weakest-link to Best-Shot: The Voluntary Provision of Public Goods," *Public Choice*, 1983, 371-386

Rabin, Matthew, "Incorporating Fairness into Game Theory and Economics," *American Economic Review*, 83, 1993, 1281--1302.

Roberts, R. D. (1984), "A Positive Model of Private Charity and Public Transfers," *Journal of Political Economy*, 92 (1)

Roberts, R. D. (1987), "Financing Public Goods," *Journal of Political Economy*, 92, 420-437.

Rose-Ackerman, Susan, "Altruism, Nonprofits, and Economic Theory," *Journal of Economic Literature*, 34, June 1996, p.701-28.

Rose-Ackerman, Susan, "Do Government Grants to Charity Reduce Private Donations?" in M. White, ed. *Nonprofit Firms in a Three-Sector Economy*, Urban Institute, Washington D.C., 1981, p. 95-114

Sugden, R. (1984), "Reciprocity: The Supply of Public Goods through Voluntary Contribution," *Economic Journal*, 94, 772-787

Steinberg, R. (1987), "Voluntary Donations and Public Expenditures in a Federalist System," *American Economic Review*, 76, p.24-36.

Warr, Peter, "Pareto Optimal Redistribution and Private Charity," *Journal of Public Economics*, 1982

#### 1.2.2. Empirical Evidence

Andreoni, James, "An Experimental Test of the Public Goods Crowding-Out Hypothesis," *American Economic Review*, 1993, 83, 1317-1327

Andreoni, J. "Why Free Ride? Strategies and Learning in Public Goods Experiments," *Journal of Public Economics*, Dec. 1988

Andreoni, J. "Cooperation in Public Goods Experiments: Kindness or Confusion?," *American Economic Review*, September 1995, 85, 891-904.

Andreoni, J., Croson, R., 2008. Chapter 82 partners versus strangers: Random rematching in public goods experiments. Vol. 1 of *Handbook of Experimental Economics Results*. Elsevier, pp. 776 – 783.

Andreoni, J., Harbaugh, W. T. and Vesterlund, L. (2007). *Altruism in Experiments*. New Palgrave Dictionary of Economics

Andreoni, J., W. G. Gale and J.K. Scholz, "Charitable Contributions of Time and Money," UW-Working Paper.

Andreoni, J. and J. Miller, "Giving According to GARP: An Experimental Test of the Consistency of Preferences for Altruism," *Econometrica*, 2002, 737-753

Andreoni, J. and J.K. Scholz, "An Econometric Analysis of Charitable Giving with Interdependent Preferences," 36, 1998, *Economic Inquiry*, p. 410-428.

Andreoni, J. and A. Payne, "Do Government Grants to Private Charities Crowd Out Giving or Fundraising?" *American Economic Review*, *American Economic Review*, 93(3), June 2003, 792-812.

Andreoni, J. and L. Vesterlund (2001), "Which is the Fair Sex? On Male-Female Differences in Altruism," *Quarterly Journal of Economics*, 116, February 2001, 293-312.

Auten, Gerald E., James M. Cilke, and William C. Randolph. "The Effects of Tax Reform on Charitable Contributions," *National Tax Journal*, Vol. XLV, No. 3 (1992) pp. 267-290.

Auten G., H. Sieg, and C. Clotfelter, "Charitable Giving, Income, and Taxes: An Analysis of Panel Data," *AER*, 2002, 92(1), 371-382

Berry, S. and J. Waldfogel, "Public Radio in the United States: Public Radio in the United States: Does it Correct Market Failure or Cannibalize Commercial Stations?" *Journal of Public Economics*, 71, Feb. 1999, 189-211

Bolton, G. and E. Katok (1998), "An Experimental Test of the Crowding Out Hypothesis: The Nature of Beneficent Behavior," *Journal of Economic Behavior and Organization*, 37, 315-331.

Clotfelter, Charles T., "The Impact of Tax Reform on Charitable Giving: A 1989 Perspective," in J. Slemrod, ed., *Do Taxes Matter? The Impact of the Tax Reform Act of 1986*, MIT Press, 1990.

Eckel, C., Grossman, P. and Johnston, M. (2005): "An Experimental Test of the Crowding Out Hypothesis," *Journal of Public Economics*, 89 (8), 1543-1560.

Fisman, Ray, Shachar Kariv and Daniel Markovits, "Individual Preferences for Giving," *American Economic Review*, December 2007, 97(5), pp. 1858-1876.

Fong, Christina & Erzo Luttmer. 2009. "What determines giving to Hurricane Katrina victims? Experimental evidence on racial group loyalty." *American Economic Journal: Applied Economics* 1(2): 64-87.

Goeree, Jacob, Charles A. Holt and Susan K. Laury, "Private costs and public benefits: unraveling the effects of altruism and noisy behavior," *Journal of Public Economics*, Volume 83, Issue 2, February 2002, Pages 255-276

Gruber, Jonathan, "Pay or pray? The impact of charitable subsidies on religious attendance" *Journal of Public Economics*, Volume 88, Issue 12, December 2004, Pages 2635-2655

Harbaugh, William T., Ulrich Mayr & Daniel R. Burghart. 2007. "Neural responses to taxation and voluntary giving reveal motives for charitable donations." *Science* 316(15 June): 1622-1625.

Hungerman, Daniel, "Are Church and State Substitutes? Evidence from the 1996 Welfare Reform," *Journal of Public Economics*, December 2005, p. 2245-2267.

Isaac, M. and J. Walker, "Group Size Hypothesis of Public Goods Provision: Experimental Evidence," *Quarterly Journal of Economics*, 1988

Johnston, R. C. Eckel, and P. Grossman, "An Experimental Test of the Crowding Out Hypothesis," *Journal of Public Economics*, Volume 89, Issue 8, 1543-1560, August 2005

Khanna, Jyoti, John Posnett, and Todd Sandler, "Charity Donations in the UK: New Evidence based on Panel Data," 1995, *Journal of Public Economics*

Kingma, B. (1989), "An Accurate Measurement of the Crowd-Out Effect, Income Effect, and Price Effect for Charitable Contributions," *Journal of Political Economy*, 97, 1197-1207.

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Laury, S. K., Holt, C. A., 2008a. Chapter 84 Voluntary Provision of Public Goods: Experimental Results with Interior Nash Equilibria. Vol. 1 of *Handbook of Experimental Economics Results*. Elsevier, pp. 792 – 801.

Marwell, G. and R. Ames, "Economists Free Ride - Does Anyone Else?" *Journal of Public Economics*, 1981, 295-310

Palfrey, T., and J. Prisbrey, "Anomalous Behavior in Public Goods Experiments: How Much and Why?" *American Economic Review*, 87, 829-846

Palfrey, T and J. Prisbrey, "Altruism, Reputation and Noise in Linear Public Goods Experiments," *Journal of Public Economics*, 1996, 61/3, 409-427.

Payne, A. "Does the Government Crowd-Out Private Donations? New Evidence from a Sample of Non-Profit Firms," *Journal of Public Economics*, 69, 1998, 323-345

Posnett, John and Todd Sandler, "Demand for Charity Donations in Private Non-profit Markets: The Case of the U.K.," *Journal of Public Economics*, 40, November 1989, p.187-200

Randolph, W. C. (1995), "Dynamic Income, Progressive Taxes, and the Timing of Charitable Contributions," *Journal of Political Economy*, 103, 709-738.

Ribar, D. C., and M. O. Wilhelm (2000), "Altruistic and Joy-of-giving Motivations in Charitable Behavior," *Journal of Political Economy*, 110:2 (April 2002), 425-57

Vesterlund, L. (2006). 'Why do people give?', in (W.Powell and R.S.Steinberg, eds.), *The Nonprofit Sector: A Research Handbook*, 2nd Edition, pp. 568–87, New Haven, CT: Yale University.

Vesterlund, Lise, Mark Wilhelm, and Huan Xie, "An Experimental Test of the Impure Altruism Model of Giving," working paper

### 1.3. Fundraising

Andreoni, James, "Toward a Theory of Charitable Fundraising," *Journal of Political Economy*, 1998, 1186-1213.

Andreoni, J. "Charitable Giving" *New Palgrave Dictionary of Economics*, 2nd Edition, 2007.

Andreoni, James, Paul Brown and Lise Vesterlund. "What Makes an Allocation Fair? Some Experimental Evidence." *Games and Economic Behavior*, 2002, 40(1), pp. 1-24.

Andreoni, James, and Ragan Petrie, "Public Goods Experiments without Confidentiality: A Glimpse Into Fund-raising," *Journal of Public Economics*, Volume 88, Issues 7-8, July 2004, Pages 1605-1623

Admati, Anat R. and Motty Perry (1991), "Joint Projects without Commitment," *Review of Economic Studies*, 58, 259-276.

Bac, M., Bag, P. K., 2003. Strategic information revelation in fundraising. *Journal of Public Economics* 87 (3-4), 659 – 679.



Bac, M. and P. Bag (1999b), "Maximizing Contributions to Public Goods through Minimal Contribution Requirement," mimeo, Bilkent University.

Bag, P., Roy, S., 01 2008. Repeated charitable contributions under incomplete information. *Economic Journal* 118 (525), 60–91.

Bagnoli, Mark and Bart Lipman, "Provision of Public Goods: Fully Implementing the Core Through Private Contributions," *Review of Economic Studies*, Oct. 1989.

Bagnoli, M. and M. McKee (1991), "Voluntary Contribution Games: Efficient Private Provision of Public Goods," *Economic Inquiry*, 351-366.

Bagnoli, M., S. Ben-David, and M. McKee (1992), "Voluntary Provision of Public Goods: the Multiple Unit Case," *Journal of Public Economics*, 47(1), 85-106.

Ball, S., C. Eckel, P. Grossman, and W. Zame, "Status in Markets," *Quarterly Journal of Economics*, 2001, 116, February, 161-188

Bilodeau, Marc, Jason Childs and Stuart Mestelman, "Volunteering a public service: an experimental investigation," *Journal of Public Economics*, Volume 88, Issue 12, December 2004, p. 2839-2855

Bilodeau, Marc, and Al Slivinski, "Rational Nonprofit Entrepreneurship," *Journal of Economics and Management Strategy*, 1998, p. 551-571.

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Breman, Anna, "Give More Tomorrow: Two Field Experiments on Altruism and Intertemporal Choice" working paper.

Bracha, Anat, Michael Menietti, and Lise Vesterlund, "Seeds to Succeed? Sequential Giving to Public Projects," forthcoming *Journal of Public Economics*

Choi, Syngjoo, Douglas Gale, and Shachar Kariv, "Sequential Equilibrium in Monotone Games: Theory-Based Analysis of Experimental Data" *Journal of Economic Theory*, December 2008, 143(1), pp. 302–330.

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Duffy, J., Ochs, J., Vesterlund, L., 2007. Giving little by little: Dynamic voluntary contribution games. *Journal of Public Economics* 91 (9), 1708 – 1730

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Glaser, Amihai and Kai A. Konrad, "A Signaling Explanation for Private Charity," *American Economic Review*, 86(4), 1996, p. 1019-1028.

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Karlan, D., List, J. A., 2007. Does price matter in charitable giving? evidence from a large-scale natural field experiment.  
*The American Economic Review* 97 (5), 1774–1793.

Kumru, C. S., Vesterlund, L., 2010. The effect of status on charitable giving.  
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Marks, M. and R. Croson (1998), "Alternative Rebate Rules in the Provision of a Threshold Public Good: An Experimental Investigation," *Journal of Public Economics*, 195-220.

Marx, L. and S. Matthews, "Dynamic Voluntary Contributions to a Public Project," *Review of Economic Studies*, 62, 2000, 327-358

Morelli, M. and L. Vesterlund, "Provision Point Mechanism: A Case of Overprovision of Public Goods," working paper.

Morgan, J. "Financing Public Goods by Means of Lotteries," *Review of Economic Studies*, 67, 2000, 761-84.

Morgan, J. and M. Sefton, "Funding Public Goods with Lotteries: An Experiment," *Review of Economic Studies*, 2000, 785-810.

Pecorino, P., Temimi, A., 2001. A note on the theory of charitable fund-raising: The role of refunds. *Journal of Public Economic Theory* 3 (3), 341–45.

Potters, J., Sefton, M., Vesterlund, L., October 2007. Leading-by-example and signaling in voluntary contribution games: an experimental study. *Economic Theory* 33 (1), 169–182.

Potters, J., M. Sefton, and L. Vesterlund, “After You - Endogenous Sequencing in Voluntary Contribution Games,” *Journal of Public Economics*, Volume 89, Issue 8, Pages 1355-1592, August 2005.

Rege, Mari, and Kjetil Telle, “The impact of social approval and framing on cooperation in public good situations,” *Journal of Public Economics*, Volume 88, Issues 7-8, July 2004, Pages 1625-1644

Romano, Richard and Huseyin Yildirim, “Why Charities Announce Donations: A Positive Perspective,” *Journal of Public Economics*, 81, 2001, 423-4

Rose-Ackerman, Susan, “United Charities: An Economic Analysis,” 28, *Public Policy*, 1980

Rose-Ackerman, Susan, “Ideals versus Dollars: Donors, Charity Managers, and Government Grants,” *Journal of Political Economy*, 95, 1987

Rose-Ackerman, Susan, “Charitable Giving and "Excessive" Fundraising,” *Quarterly Journal of Economics*, 97, May 1982, p.193-212.

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Varian, Hal R., “Sequential Provision of Public Goods,” *Journal of Public Economics*, 1994, 165-86.

Vesterlund, L., 2003. The informational value of sequential fundraising. *Journal of Public Economics* 87, 627–657.

Weisbrod, Burton A. and Nestor D. Dominguez, “Demand for Collective Goods in Private Nonprofit Markets: Can Fundraising Expenditures Help Overcome Free-Rider Behavior?” *Journal of Public Economics*, 30, June 1986, p. 83-96

## 2. Collective Choice and Majority Voting

Bergstrom, T., and R. Goodman, "Private Demands for Public Goods," *American Economic Review*, 1973, p. 280-296.

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Laffont, J., *Fundamentals of Public Economics*, The MIT Press, Chapters 2.5, 2.6, 4

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Mueller, D., *Public Choice II*, Cambridge,, Chapters 4, 5 and 6

Osbourne, Martin and Al Slivinski, "A Model of Political Competition with Citizen-Candidates," 1996, *Quarterly Journal of Economics*, p. 65-96.

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Young, Peyton, "Optimal Voting Rules," *Journal of Economic Perspectives*, Winter 1995, 51-64

### 3. Optimal Taxation, Preference Revelation, and the Implementation Problem

Abreu, Dilip and Arunava Sen, "Virtual Implementation in Nash Equilibrium," *Econometrica*, July 1991.

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#### 4. Behavioral Public Economics

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