

This course will deal with two broad topics: Public Goods and Externalities, and Optimal Taxation with Private Information.

- You need to write a short paper if you want a grade for this course.
- Office Hours are by appointment My phone numbers are 626-7151 and 763-559-8159 (home). My e-mail address is chari@econ.umn.edu
- You will be asked to present a paper in the class. Groups of 2 or 3 to present the paper are a good idea.

The schedule is roughly as follows:

Week 1: Public Goods and Externalities. (I will present).
- Chari-Jones , *Economic Theory*, 2000.

Week 2: Global Public Goods and Markets with Private Information (I will present)
- Mailath-Postlewaite, *Restud*.

Week 3a: Markets with private information
- Prescott-Townsend

Week 3b: Optimal Taxation
- Mirrlees

Weeks 4 and 5: Optimal Social Insurance
- Atkeson-Lucas
- Golosov-Kocherlakota-Tysvinski
- Farhi-Werning
- Thomas-Worrall

Week 6: Hidden Storage and Hidden Trade
- Cole-Kocherlakota, *Restud*, Golosov-Tysvinski (*JPE*)
- Werning-Shimer)

Week 7: Political Economy
- Acemoglu, Golosov, Tsyvinski

Reading List

I. Public Goods and Externalities

1. V. V. Chari and Larry E. Jones, "A Reconsideration of the Problem of Social Cost: Free Riders and Monopolists," *Economic Theory* **16:1** (July 2000), 1–22.
2. George Mailath and Andrew Postlewaite, "Asymmetric Information Bargaining Problem with Many Agents," *Review of Economic Studies* **57** (1990), 351–367.
3. K. Arrow, "The Organization of Economic Activity: Issues Pertinent to the Choice of Market Versus Non-Market Allocation," in *Public Expenditures and Policy Analysis*, ed., R. Haveman and J. Margolis. Chicago: Matham, 1970.
4. G. Becker and K. Murphy, "The Division of Labor, Local Markets, and Worker Organization," *Quarterly Journal of Economics*, **107** (1992), 1137–1160.
5. V.V. Chari and L.E. Jones, "Notes on the Asymptotic Properties of Efficient Mechanisms in Economies with Externalities," Working Paper, Northwestern University, 1992.
6. R. Coase, "The Problem of Social Cost," *Journal of Law and Economics* **3** (1960), 1–44.
7. A. Cournot, *Recherches sur les Principes Mathématiques de la Théorie des Richesses*. Paris: M. Riviere, 1838.
8. D. Foley, "Resource Allocation and the Public Sector," *Yale Economic Essays* **43** (1967), 43–98.
9. T. Groves and J. Ledyard, "Optimal Allocation of Public Goods: A Solution to the 'Free Rider' Problem," *Econometrica* **45** (1977), 783–809.
10. T. Groves and J. Ledyard, "Incentive Compatibility Since 1972," in *Information, Incentives and Economics Mechanisms: Essays in Honor of Leonid Hurwicz*, ed., T. Groves, et. al., Minneapolis: University of Minnesota Press, 1987.
11. O. Hart, "Monopolistic Competition in a Large Economy with Commodity Differentiation," *Review of Economic Studies* **46** (1979), 1–30.

12. O. Hart, "Perfect Competition and Optimal Product Differentiation," *Journal of Economic Theory* **22** (1980), 279–312.
13. W. Heller and D. Starrett, "On the Nature of Externalities," in *Theory and Measurement of Externalities*, ed., S. Lin. New York: Academic Press, 1976.
14. L. Hurwicz, "On Informationally Decentralized Systems," in *Decision and Organization: A Volume in Honor of Jacob Marschak*, ed., C. McGuire and R. Radner. Amsterdam: North-Holland, 1972.
15. L. Jones, "The Efficiency of Monopolistically Competitive Equilibria in Large Economies: Commodity Differentiation with Gross Substitutes," *Journal of Economic Theory* **41** (1987), 356–391.
16. L. Jones, "Optimum Product Diversity and the Incentives for Entry in Large Economies," *Quarterly Journal of Economics* **102** (1987), 595–614.
17. E. Lindahl, "Positive Lösung, Die Gerechtigkeit der Besteuerung," translated as "Just Taxation—A Positive Solution," in *Classics in the Theory of Public Finance*, ed., R. Musgrave and A. Peacock. London: MacMillan, 1919.
18. J. Meade, "External Economies and Diseconomies in a Competitive Situation," *Economic Journal* **62** (1952), 654–671.
19. J. Milleron, "Theory of Value with Public Goods: A Survey Article," *Journal of Economic Theory* **5** (1972), 419–477.
20. R. Myerson, "Incentive Compatibility and the Bargaining Problem," *Econometrica* **47** (1979), 61–73.
21. R. Rob, "Pollution Claim Settlements Under Private Information," *Journal of Economic Theory* **47** (1989), 307–333.
22. D.J. Roberts, "The Incentives for Correct Revelation of Preferences and the Number of Consumers," *Journal of Public Economics* **6** (1976), 359–374.
23. P. Samuelson, "The Pure Theory of Public Expenditures," *Review of Economics and Statistics* **36** (1954), 387–389.
24. A. Shleifer and R. Vishny, "Corruption," Working Paper, 1993.

25. H. Sonnenschein, "The Economies of Incentives: An Introductory Account," Nancy L. Schwartz Memorial Lecture, Northwestern University, 1983.
26. D. Starrett, "Fundamental Nonconvexities in the Theory of Externalities," *Journal of Economic Theory* **4** (1972), 180–199.
27. M. Wooders, "A Tiebout Theorem," Discussion Paper, University of Toronto, 1986.

II. Local Public Goods

1. V. V. Chari and L.E. Jones, "A Reconsideration of the Problem of Social Cost: The Case of Local Public Goods," Manuscript, Federal Reserve Bank of Minneapolis, 1989.
2. Harold Cole and Edward C. Prescott "Valuation Equilibrium with Clubs" *Journal of Economic Theory* **74** (1997), 19-39.
3. Bryan Ellickson, Birgit Grodal, Suzanne Scotchmer, William Zame, "Clubs and the Market" *Econometrica*, (1999), 1185-1217.
4. Edward C. Prescott and Robert M. Townsend, "Firms as Clubs in Walrasian Markets with Private Information" Federal Reserve Bank of Richmond Working Paper, 2003.
5. S. Scotchmer, "Profit Maximizing Clubs," *Journal of Public Economics* **27** (1985), 25–45.
6. C. Tiebout, "A Pure Theory of Local Expenditures," *Journal of Political Economy* **64** (1956), 416–424.

III. Markets with Private Information

1. Prescott, Edward C. and Robert M. Townsend, "Pareto-Optima and Competition Equilibria with Adverse Selection and Moral Hazard," *Econometrica* **52** (January), (1984a), 21-45.
2. Prescott, Edward C. and Robert M. Townsend, "General Competitive Analysis in an Economy with Private Information," *International Economic Review* **25** (February) (1984b), 1-20.

3. Bisin, Alberto and Piero Gottardi, "Efficient Competitive Equilibrium with Adverse Selection," forthcoming, *Journal of Political Economy*.
4. Jonathan Thomas and Timothy Worrall, "Income fluctuation and asymmetric information: An example of a repeated principal-agent problem," *Journal of Economic Theory*, **51** (1990), 367-390.

IV Optimal Taxation with Private Information

5. James Mirrlees, "An exploration in the theory of optimum income taxation" *Review of Economic Studies*, (1971), 38, 175-208.
6. Peter Diamond and James Mirrlees, "A Model of Social Insurance with Variable Retirement" *Journal of Public Economics*, (1978), 295-336.
7. Andrew Atkeson and Robert Lucas, "Efficiency and Equality in a Simple Model of efficient unemployment insurance", *Journal of Economic Theory* (1995), 64-88.
8. Mikhail Golosov, Narayana Kocherlakota and Aleh Tsyvinski, "Optimal Indirect and Capital Taxation", *Review of Economic Studies*, (2003) 569-587.

V Social Insurance with Hidden Savings and Hidden Trading

1. Harold Cole and Narayana Kocherlakota, "Efficient Allocations with Hidden Income and Hidden Storage" *Review of Economic Studies*, 2001, 523-542.
2. Richard Arnott and Joseph Stiglitz, "Moral Hazard and Optimal Commodity Taxation", *Journal of Public Economics*, (1986) 1-24.
3. Alberto Bisin and Adriano Rampini, "Anonymous Markets and Optimal Policy", Northwestern University Working Paper, 2004.
4. Ivan Werning, "Optimal Unemployment Insurance with Unobserved Savings", Working Paper, MIT, 2002.
9. Mikhail Golosov and Aleh Tsyvinski, "Optimal Taxation with Endogenous Insurance Markets" Working Paper, MIT.

10. Robert Shimer and Ivan Werning, "Liquidity and Insurance for the Unemployed," Working Paper.