

Public Sector Economics

Robert S. Pindyck and Daniel L. Rubinfeld, *Microeconomics*, 6th edition, Pearson Prentice-Hall, 2005

“This book is well known for its coverage of modern topics (Game theory, Economics of Information, and Behavioral Economics), clarity of its writing style and graphs, and integrated use of real world examples. The emphasis on relevance and application to both managerial and public-policy decision-making are focused goals of the book. This emphasis is accomplished by including MANY extended examples that cover such topics as the analysis of demand, cost, and market efficiency; the design of pricing strategies; investment and production decisions; and public policy analysis. Economists and strategists looking to stay current with economic information.”

Valerie Suslow and Jonathan Hamilton, Study Guide: Microeconomics (companion book to the title above)

Arnold, D., M. Graetz, E. Munnell (eds.) (1998), *Framing the Social Security Debate* (National Academy of Social Insurance).

Competing reform proposals reflect contrasting views about the nature of the Social Security problem and how to solve it. This book examines issues about privatization, national savings and economic growth, the political risks and realities in reforms, lessons from private pension developments in the United States, and the efforts of other advanced industrial countries to adapt their old-age pensions to an aging population. It also poses philosophical arguments about collective versus individual responsibility and the implications of market risks and political risks for stable and secure retirement income policy.

***Public Finance and Public Policy*, 2nd edition, Jonathan Gruber, Worth Publishers, 2007.**

“An excellent textbook for an upper level course for economics majors. There is a lot of inertia in textbook choice, but I was finally convinced to adopt Gruber’s book when I served as the Lecturer for Stanford University’s upper-level seminar in Public Economics. The textbook has high production values and of particular note is its timeliness in covering both current policy issues (Social Security Reform, Fundamental Tax Reform, Education, etc.) and current public economics research (Political Economy, Behavioral Economics, Contract Theory, etc). Most textbooks on the market offer a very dated view of Public Economics, especially in terms of current research. The book explains the findings using intuition and graphs, but provides mathematical detail in mathematical supplements for the ambitious reader. The accompanying website also provides impressive PowerPoint slides. The student response to the textbook was uniformly positive.

The only downsides are the hefty price tag, worsened by the limited secondary market, and for those who want a more mathematically rigorous treatment in courses that require calculus and optimization, the included supplements were helpful, but still limited.”

Atkinson, A. and J. Stiglitz, (1980), *Lectures in Public Economics* (McGraw-Hill)

The subject of optimum design is now often being required to understand the industrial potential of these techniques. Introduction to Optimum Design presents a mathematical model for optimum design applied to exercises from all fields of engineering. The increasingly important role of computers in design and vector matrix algebra is stressed throughout.

Atkinson, A. (1999), *The Economic Consequences of Rolling Back the Welfare State* (M.I.T)

“In recent years the welfare state has come under attack from economists, and in many OECD countries there have been calls for spending on the welfare state to be rolled back. Critics argue that the size of transfer programs is responsible for a decline in economic performance and that cuts in spending are a prerequisite for a return to the golden age of full employment and economic growth. A. B. Atkinson takes such criticisms seriously, placing them under empirical and analytical scrutiny.

Atkinson brings a welcome sense of balance to the debate. He warns that many currently fashionable policy proposals to roll back the welfare state could have unintended negative side effects, based as they are on an oversimplified view of the workings of the economy and of how welfare arrangements affect economic incentives. He asks whether there are ways in which the welfare state plays a positive role in the modernization of the economy. He develops new models of the labor market and of the growth of the corporate economy, which provide insight into the role and consequences of unemployment insurance, and the implications of moves to private pension funds.

Atkinson does not attempt to determine whether or not spending should be cut. Rather, his aim is to clarify the nature of the charges leveled against the welfare state, so that readers can make up their own minds.”

Atkinson, A. (1995), *Public Economics in Action* (Oxford)

“This book surveys recent developments in public economics by taking as a case-study the proposals for a basic income/flat tax scheme. It discusses various approaches to taxation and presents a framework for a system that would affect both personal income and the social security system, replacing the one by a flat-rate income tax and the other by a guaranteed income. This idea has generated wide interest in a number of countries, and is being actively discussed by several political parties. This book explains how these changes would benefit a wide variety of social groups, leading to a greater redistribution of income. At the same time, it also raises the question of whether a single reform can meet the very different objectives of different supporters. The author reviews different areas of public economics in which there has been active research in recent years-- namely the theory of optimum taxation, public choice theory, general equilibrium analysis of incidence, numerical tax- benefit modelling, and econometric studies of work incentives--and asks how these contribute to our understanding of this particular policy reform. He also indicates the promising directions for future research. The author does not argue for or against the basic income/flat tax proposal, but believes it should be on the agenda for any serious discussion of tax and social security reform for the twenty-first century.”

Alan J. Auerbach and Martin Feldstein, *Handbook of Public Economics, Volumes 1 and 2* (North-Holland, 1985, 1987).

Mansfield, E. and Yohe, G., Microeconomics, 11th edition .(2004). W.W. Norton & Co.

“Ever since Edwin Mansfield pioneered the popular theory-and-application approach with the First Edition of Microeconomics, the text has been a perennial leader in the intermediate microeconomics course field. Starting with the Tenth Edition and continuing with the Eleventh, co-author Gary Yohe has thoroughly revised the text while retaining its traditional strengths. Discussions remain accurate and clear, making use of engaging examples that draw on real-world applications to motivate the presentation of theory. This revitalized classic promises to continue to please instructors and their students.”

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

Anne Steinemann, William C. Apgar and H. James Brown, Microeconomics for Public Decisions, Thomson/South-Western, 2005.

“Microeconomics for Public Decisions is a revision of the Apgar/Brown Microeconomics for Public Policy text. It was revised after conducting interviews with students and former students (now practitioners), and asking them what economic concepts and methods they use most frequently in their jobs. Microeconomics for Public Decisions is designed to focus on essential principles and analytical techniques for making decision that affect the public interest. It blends theory with applications and discussions so students will understand how and why microeconomics is important, how to perform economic analyses, and how to evaluate economic analyses performed by others.”

John M. Levy, Essential Microeconomics for Public Policy Analysis, Praeger, 1995 (paperback)

“John Levy’s text presents microeconomic theory for use in analyzing and formulating public policy. It couples a direct and non-intimidating approach to essential theory with a presentation that is sophisticated at the policy level. It does not attempt to cover the entire body of economic theory, but rather presents those elements of theory most relevant to courses in public economics and public policy in such programs as public administration, policy analysis, health planning, environmental management, urban affairs, and urban planning. The text is divided into two parts. The first introduces basic concepts with an emphasis on their philosophical underpinnings and policy uses; the second consists of six essays on policy-related subjects, selected to make use of concepts presented in the first part. Among the unusual features of the book are the discussion of the tax expenditure concept, benefit cost analysis with numerical example, substantial discussions of the origins and philosophical implications of economic man as a behavioral model, and an entire chapter devoted to public choice.”

Roger Leroy Miller, Daniel K. Benjamin and Douglass North, The Economics of Public Issues, 14th edition, Pearson/Addison Wesley, 2005 (paperback)

“The Economics of Public Issues is a collection of brief, relevant readings that spark independent thinking and classroom discussions in principles of economics, public policy, and social issues courses. The Foundations of Economic Analysis: Death by Bureaucrat; Ethanol Madness; Flying the Friendly Skies?; The Mystery of Wealth. Supply and Demand: Sex, Booze, and Drugs; Expanding Waistlines; Is Water

Different?; Slave Redemption in Sudan; Smoking and Smuggling; Bankrupt Landlords, from Sea to Shining Sea. Labor Markets: (Why) Are Women Paid Less?; The Effects of the Minimum Wage; Immigration, Superstars, and Poverty; A Farewell to Jobs. Market Structures: Monopsony and Competition in Health Care; Big Oil, Big Oil Prices?; Contracts, Combinations, and Conspiracies; Coffee, Tea, or Tuition-Free?; College Costs (...and Costs and Costs); Keeping the Competition Out; Political Economy: Raising Less Corn and More Hell; Killer Cars and the Rise of the SUV; Crime and Punishment; The Graying of America; Heavenly Highway. Property Rights and the Environment: The Trashman Cometh; Bye-Bye, Bison; Smog Merchants; Greenhouse Economics. International Trade and Economic Prosperity: Free Trade, Less Trade, or No Trade?; The \$750,000 Steelworker; The Lion, the Dragon, and the Future. For all readers interested in principles of economics, public policy, and social issues.."

Richard Cornes and Todd Sandler, *The Theory of Externalities, Public Goods, and Club Goods*, 2nd Edition (Cambridge, 1994).

"This book presents a theoretical treatment of externalities (i.e. uncompensated interdependencies), public goods, and club goods. The new edition updates and expands the discussion of externalities and their implications, coverage of asymmetric information, underlying game-theoretic formulations, and intuitive and graphical presentations. Aimed at well-prepared undergraduates and graduate students making a serious foray into this branch of economics, the analysis should also interest professional economists wishing to survey recent advancements in the field. No other single source for the range of materials explored is currently available."

Dennis C. Mueller, *Public Choice II* (Cambridge, 1989).

"This book discusses the main topics of the public-social choice literature of the past 40 years. Separate chapters discuss various applied public choice questions such as rent seeking, the growth of government, the rise and decline of nations, political business cycles, why people vote, and the nature and extent of redistribution. The book details normative issues in public choice, including Bergson-Samuelson social welfare functions, the Arrow and Sen impossibility theorems, the work of John Rawls, John Harsanyi, James Buchanan, and Gordon Tullock. This book is a major revision of Public Choice, containing eleven new chapters in addition to substantial revision and expansion. Separate sections containing proofs of the most important theorems have been added. It is appropriate for both graduate and undergraduate courses in public choice economics and political theory, or as a supplement in courses dealing with related questions such as public finance."

Gareth D. Myles, *Public Economics* (Cambridge, 1995).

"This up-to-date new textbook provides a thorough treatment of all the central topics in public economics. Aimed at senior undergraduate and graduate students, it will also be invaluable to professional economists and to those teaching in the field. The book is entirely self-contained, giving all the equilibrium theory and welfare economics needed to understand the analyses. The author covers the Arrow-Debreu economy, welfare economics and the measurement of inequality and poverty which lay the foundations and emphasize the important role played by information. Within the competitive economy, he examines commodity taxation, income taxation and tax reform in a certain environment. He goes on to study the public economics of uncertainty, and then treats public goods, externalities, imperfect competition and

tax evasion as departures from the standard competitive assumptions and looks at their implication for public economics derived. Finally, after treatment of the overlapping generations economy, he addresses intertemporal issues concerning social security and debts."

Richard W. Tresch, *Public Finance, 2nd Edition* (Business Publications, 2004).

"...a detailed introduction to theoretical work on many of the core issues in contemporary public economics. Careful and comprehensive, it will provide readers with an ideal springboard to further research."

James M. Poterba, Mitsui Professor of Economics, Massachusetts Institute of Technology, Cambridge, USA

Averting the old Age Crisis, (1994), The World Bank

"This policy-oriented book identifies the issues countries should consider as they reevaluate their old income security policies and formulate new methods. The choice between the various models for providing old-age security has broad implications for the operation of labor and capital markets, the fiscal system, and the level, growth, and distribution of GNP. The author concludes that a mixed strategy is more effective than any single method of income security. This will be an important book for international economists and policymakers."

Neil Bruce, *Public Finance and the American Economy, Second Edition* (Reading, MA: Addison-Wesley Educational Publishers, Inc., 2001)

"Professor Neil Bruce balances economic theory with real-world examples and applications. His graphs and mathematics are explained thoroughly and the text covers both expenditure policy as well as tax policy; making the textbook good for 2 separate courses/semesters."

Barr, N. (2001), *The Welfare State As Piggy Bank* (Oxford)

"Of the many functions of the welfare state, two are particularly prominent: the 'Robin Hood' function - the provision of poverty relief, the redistribution of income and wealth, and the reduction of social exclusion; and the 'piggy bank' function - ensuring mechanisms for insurance and for redistribution over the life cycle. The piggy-bank function, unlike the redistributive purpose of the welfare state, has received relatively little attention, and is not widely understood. This book redresses the balance. Nicholas Barr's central contention is that---contrary to popular opinion---the welfare state exists for reasons additional to poverty relief. These reasons - encapsulated by the piggy-bank function - arise out of pervasive problems of imperfect information, risk, and uncertainty. Even if all poverty and social exclusion could be eradicated, people would still need to insure themselves and to redistribute over the life cycle. As a result, Barr argues, the welfare state is here to stay, since twenty-first century developments do nothing to undermine these reasons. He also explores ways in which the welfare state can and will adapt to economic and social change, including specific, and sometimes novel, solutions. The analysis in "The Welfare State as Piggy Bank" is international, applying to advanced industrial countries, as well as addressing post-communist countries, and touching upon middle-income developing countries. Barr's approach is contemporary and forward-thinking. His discussion ranges over a number of topics of central relevance to life in the twenty-first century, including genetic screening and its impact on insurance; the convergence of private and social insurance; how to finance long-term care; pension reform in the light of fluid family structures and a mobile workforce;

loans for financing investment in human capital; and new ways of involving private finance in tertiary education."

Bateman H., G. Kingston, and J. Piggott, (2002), *Forced Saving: Mandating Private Retirement Incomes* (Cambridge)

"The rapid aging of the world's populations has triggered an anxious response in many governments that stresses the need to set up or radically overhaul their mandatory pension policies. This wideranging analysis compares and contrasts the policies and schemes of these countries, using many tables, graphs and charts to summarize important findings."

Baumol, W. and W. Oates (1988), *Theory of Environmental Policy*

"In this book, Professors Baumol and Oates provide a rigorous and comprehensive analysis of the economic theory of environmental policy. They present a formal, theoretical treatment of those factors influencing the quality of life. By covering both the theory of externalities and its application to environmental policy, the authors have retained the basic structure and organization of the first edition, which has become a standard reference in the field. In this edition, however, they have updated their analysis to incorporate recent research in environmental economics."

Diamond, P. (2002), *Social Security Reform*, (Oxford)

"Social security systems are being reviewed and changed in many countries around the world. This nontechnical book considers some of the key policy issues for design of a social security reform, as well as reviewing much of the academic literature on the positive and normative aspects of social security. In the first chapter, Diamond's examination of key policy issues of general concern includes the funding of social security, the comparison of defined benefit and defined contribution systems, notional defined contribution accounts, alternative approaches to organizing individual defined contribution accounts, and the provision of survivor benefits. Diamond turns then to the academic literature on the interactions between social security and the labor and capital markets, providing a non-technical overview of the existing literature and pointing-out gaps in current research findings. Chapter Two reviews the impact on retirement decisions of forced savings, the use of an earnings or retirement test, mandated annuitization, recognizing heterogeneity in both life expectancy and possibly in risk classification for annuity pricing, and treatment of the family, particularly the use of joint-life annuitization. Also reviewed is the impact on labor supply at younger ages, considering mandatory savings and annuitization, contrasting defined benefit and defined contribution systems, and analysing alternative approaches to redistribution within social security. The final chapter covers issues of aggregate capital accumulation and risk-sharing, with the latter including the risks in annuitization, in the returns to capital, and in aggregate earnings. Also considered are the risks in the political process."

Diamond P. and P. Orszag, (2004), *Saving Social Security: A Balanced Approach*, (The Brookings Institution)

*"Written by the chair of the board of the National Academy of Social Insurance and a former special assistant to the president for economic policy during the Clinton administration, *Saving Social Security: A Balanced Approach* Proposes a reform plan for America's social security system that would save it from both its financial problems and those who would do away with it. Focusing on means that*

promote long-term balance and sustainable solvency, while protecting the program's benefits for the disabled, low earners, widows, and young survivors. Exhaustively researched and deeply entrenched in practical issues and mathematical calculations, Saving Social Security is a highly recommended ray of hope against a looming national crisis." –Midwest Book Review

Salanie, B., 2003. The Economics of Taxation. MIT Press, Cambridge, MA.

"This concise introduction to the economic theories of taxation is intuitive yet rigorous, relating the theories both to existing tax systems and to key empirical studies. The book offers a thorough discussion of the consequences of taxes on economic decisions and equilibrium outcomes, as well as useful insights into how policy makers should design taxes. It covers issues of central policy importance, such as taxation of income from capital, environmental taxation, tax credits for low-income families, and the consumption tax.

A knowledge of microeconomics at the advanced undergraduate level is required, but the book contains an appendix with the main results from consumer and producer theory used in the text. Because the study of optimal taxation relies on the theory of optimal control, which is not often taught in economics courses, a second appendix provides the necessary background."

Robert S. Pindyck and Daniel L. Rubinfeld, Microeconomics, 6th edition, Pearson Prentice-Hall, 2005

"This well-received book is a market leader in the field of Microeconomics, and demonstrates how microeconomics can be used as a tool for both managerial and public-policy decision making. Clear writing style and graphs compliment the integrated use of current, real world industry examples throughout the book. It emphasizes relevance and application to cover modern topics—such as Game Theory and economics of information—and examples—such as United States v. Microsoft, pricing cellular phone service, and Internet auctions. Coverage of other up-to-date issues includes supply and demand, cost, consumer behavior, individual and market demand, market failure, and the role of government. For individuals with an interest in economics, microeconomic theory, and price theory."

Evans, D., F. Fisher, D. Rubinfeld and R. Schmalensee (2000), Did Microsoft Harm Consumers (AEI-Brookings)

"Key economists for the government and for the Microsoft Corporation lay out their views on the key issues and then respond to the views presented by the opposing side."

Gruber, J. and D. Wise (2007) Social Security and Retirement Around the World (Chicago)

"Social Security and Retirement around the World presents comparable descriptive data and analytic calculations for each of the eleven countries discussed. The chapters begin with a description of the historical evolution of labor force participation and then present data on the current age-specific activities and income sources of men and women. Each paper then goes on to describe the institutional features of the country's social security system, highlighting any interactions with other public and private programs that might also influence retirement behavior. At the core of each chapter is a detailed analysis of the retirement incentives inherent in the provisions of that country's retirement income system. Through this process of

analysis, the individual studies provide a means of comparing the retirement incentives among the nations."

Hindricks, J. and G. Myles, (2006) *Intermediate Public Economics*, (MIT Press)

"Intermediate Public Economics sets a new standard as a comprehensive text in public economic theory for advanced undergraduates and beginning graduate students. It combines clear and concise coverage of traditional topics, such as public goods, the theory of taxation, and externalities, with engaging and up-to-date discussion of more specialized topics such as political economy, fiscal federalism, and the effect of taxation on economic growth."

--James M. Poterba, Mitsui Professor of Economics, MIT

Motta, M. (2004), *Competition Policy: Theory and Practice*, (Cambridge).

"Offering a complete analysis of antitrust (or competition policy) issues, this study is enhanced by frequent references to antitrust cases and a few fully developed case studies. Although it can be used as an economics textbook in graduate or advanced undergraduate courses, the book is equally accessible to lawyers, practitioners, and readers interested in antitrust issues, but unfamiliar with modern economics. Technical explanations of material are relegated to separate "technical" sections that can be skipped without losing continuity."

Rosen, H. (2004), *Public Finance, 7th Edition* (Irwin)

"Public Finance--while continuing to follow an innovative approach that is both theoretical and empirical--is now completely updated to reflect major changes in its key topics. New or revised information includes explanations of the Social Security trust fund, a new section on the alternative minimum tax (AMT), possible links between the corporation tax and high-profile scandals such as Enron, and more."

Stiglitz, J. (2000), *Economics of the Public Sector, 3rd Edition* (Norton)

"At the center of our country's political life are some basic economic questions: How does the government affect the economy? What should the government do? Why are some economic activities undertaken in the public sector and others in the private? Should government do more than it is currently doing, or less? Should it change what it is doing, and how it is doing it? To answer these questions, we must begin by understanding what the government does today. How had the government grown over the past fifty years? How do the size and scope of government in the United States compare with government's size and scope in other countries? This new edition of the acclaimed textbook by leading economic Joseph W. Stiglitz is the definitive text for studying public sector economics."

Stiglitz, J. (2002), *Globalization and Its Discontents* (Norton)

"Due to massive media coverage, many people are familiar with the controversy and organized resistance that globalization has generated around the world, yet explaining what globalization actually means in practice is a complicated task. For those wanting to learn more, this book is an excellent place to start. An experienced economist, Joseph Stiglitz had a brilliant career in academia before serving for four years on President Clinton's Council of Economic Advisors and then three years as chief economist and senior vice president of the World Bank. His book clearly explains the functions and powers of the main institutions that govern globalization--the International Monetary Fund, the World Bank, and the World Trade Organization--along with the ramifications, both good and bad, of their policies. He

strongly believes that globalization can be a positive force around the world, particularly for the poor, but only if the IMF, World Bank, and WTO dramatically alter the way they operate, beginning with increased transparency and a greater willingness to examine their own actions closely. Of his time at the World Bank, he writes, "Decisions were made on the basis of what seemed a curious blend of ideology and bad economics, dogma that sometimes seemed to be thinly veiling special interests.... Open, frank discussion was discouraged--there was no room for it." The book is not entirely critical, however: "Those who vilify globalization too often overlook its benefits," Stiglitz writes, explaining how globalization, along with foreign aid, has improved the living standards of millions around the world. With this clear and balanced book, Stiglitz has contributed significantly to the debate on this important topic." --Shawn Carkonen

Train, K. (1991), *Optimal Regulation* (M.I.T)

"Optimal Regulation addresses the central issue of regulatory economics - how to regulate firms in a way that induces them to produce and price "optimally." It synthesizes the major findings of an extensive theoretical literature on what constitutes optimality in various situations and which regulatory mechanisms can be used to achieve it. It is the first text to provide a unified, modern, and nontechnical treatment of the field.

The book includes models for regulating optimal output, tariffs, and surplus subsidy schemes, and presents all of the material graphically, with clear explanations of often highly technical topics."

Tuomala, M. (1991), *Optimal Income Tax and Redistribution* (M.I.T)

"This book provides a comprehensive survey of optimal income tax theory, following the development of research strategy from the basic Mirrlees model through to its refinements, examining how optimal tax rates and the shape of tax schedules are affected by new considerations. Optimal tax theory has an important contribution to make to tax policy formation, and has become especially pertinent in recent years with the renewal of controversy over whether progressive income tax is in fact desirable or not. The author not only covers the historical background and modern formulations of the theory, but extends his discussion to consider the most important extensions of the model and the interrelation of income tax with other instruments of tax and expenditure policy."

Viscusi, K.et-al (1995), *Economics of Regulation and Antitrust* (M.I.T)

"This book is by far the most comprehensive and analytically sophisticated treatment of its subject available. The combination of antitrust with government regulation makes the book especially valuable for any course about the effects of government on the private economy. The book manages to convey both contemporary economic theory and current regulatory practice with uncommon lucidity and without burdening the reader with jargon or legalese."

--Sam Peltzman, Ralph and Dorothy Keller Distinguished Service Professor of Economics, Emeritus, Graduate School of Business, University of Chicago