

## Public Goods Theory (Econ511)

**Instructor:** Luca Micheletto ([lmichel@illinois.edu](mailto:lmichel@illinois.edu))  
Office hours: Wednesday, 12:30pm-1:30pm

**Time:** Monday and Wednesday, 11:00am-12:20pm in 215B DKH

**Textbook:** Jonathan Gruber, *Public Finance and Public Policy*, 6<sup>th</sup> ed., Worth Publishers, 2019.

**Examination:** there will be (4) homework and a final exam. Homework counts for 40% and the final for 60% of your final grade.

*Final Exam: Thursday, May 9, 8:00am-11:00am (place will be announced).*

**Homework:** You can choose to do the homework in teams of up to three students. Each team submits one copy of the homework that lists all the team members. The relative contribution of each team member will be evaluated at the end of the course. Once you have chosen to work in a particular team, you cannot change the team without my explicit permission. Discussing homework questions before the due date with students of other teams is not allowed. Obviously, copying is not allowed either. Thus, if you want to discuss homework questions with other students you should join a team.

**Course Content** (Chapter references refer to the textbook):

1. Externalities (Chapter 5): definitions, inefficiencies created by externalities, public and private remedies to the externality problem, environmental externalities.
2. Public Goods (Chapter 7): definitions, private provision of public goods, socially optimal provision of public goods, Lindahl prices, Clark-Groves mechanisms.
3. Political Economy (Chapter 9): majority voting, Arrow's impossibility theorem, median voter theorem.
4. Cost-Benefit analysis (Chapter 8).
5. Local Public Goods and Fiscal Federalism (Chapter 10): club goods, Tiebout model, optimal fiscal federalism.

6. Education (Chapter 11): scope for government intervention in the provision of education, the returns to education and the human capital theory, the returns to education and the signaling model.
7. Social Insurance (Chapters 12-16): the role of the government in providing social insurance, asymmetric information and adverse selection, asymmetric information and moral hazard, health insurance, unemployment insurance, disability insurance, social security.
8. Redistributive Policy (Chapter 17): cash versus in-kind transfers.