

Public Economics ECS3704

Course structure



Learn without limits.

UNISA


college of
economic and
management sciences

Study unit 5: Public Choice Theory

- Previous chapters - market failures
- How communities express collective preferences?
- Views of dictator – abusive behaviour
- Majority rule – elect representatives – constitution
- Social choice rules – unanimity (100% support) & majority rule (50%+1)

The unanimity rule & the Rawlsian experiment

- Unanimity rule (100% support)
- Rawls's (1971) theory of justice
- “free & rational” persons choose **principles**
- Rights & duties of individuals
- Process by which unanimity is reached
- step through “veil of ignorance”
- Rawlsian welfare function
- Unanimously choose constitution
- Shortcomings

Majority voting and the median voter

- Most votes wins day
- **Direct democratic dispensation**
 - Referendum – 50%+1 vote
- **Representative** democracy
- Downs – politicians – vote-maximising
- Median voter theorem
- Median voter –Thandi
- Real world different

Arrow's Impossibility Theorem

- To find a democratically acceptable rule
- Rationality)
- Rank all possible outcomes
- Pareto principle
- Consistency
- Independence of irrelevant alternatives
- No dictatorship
- Impossible to find rule that meet all criteria

Majority voting

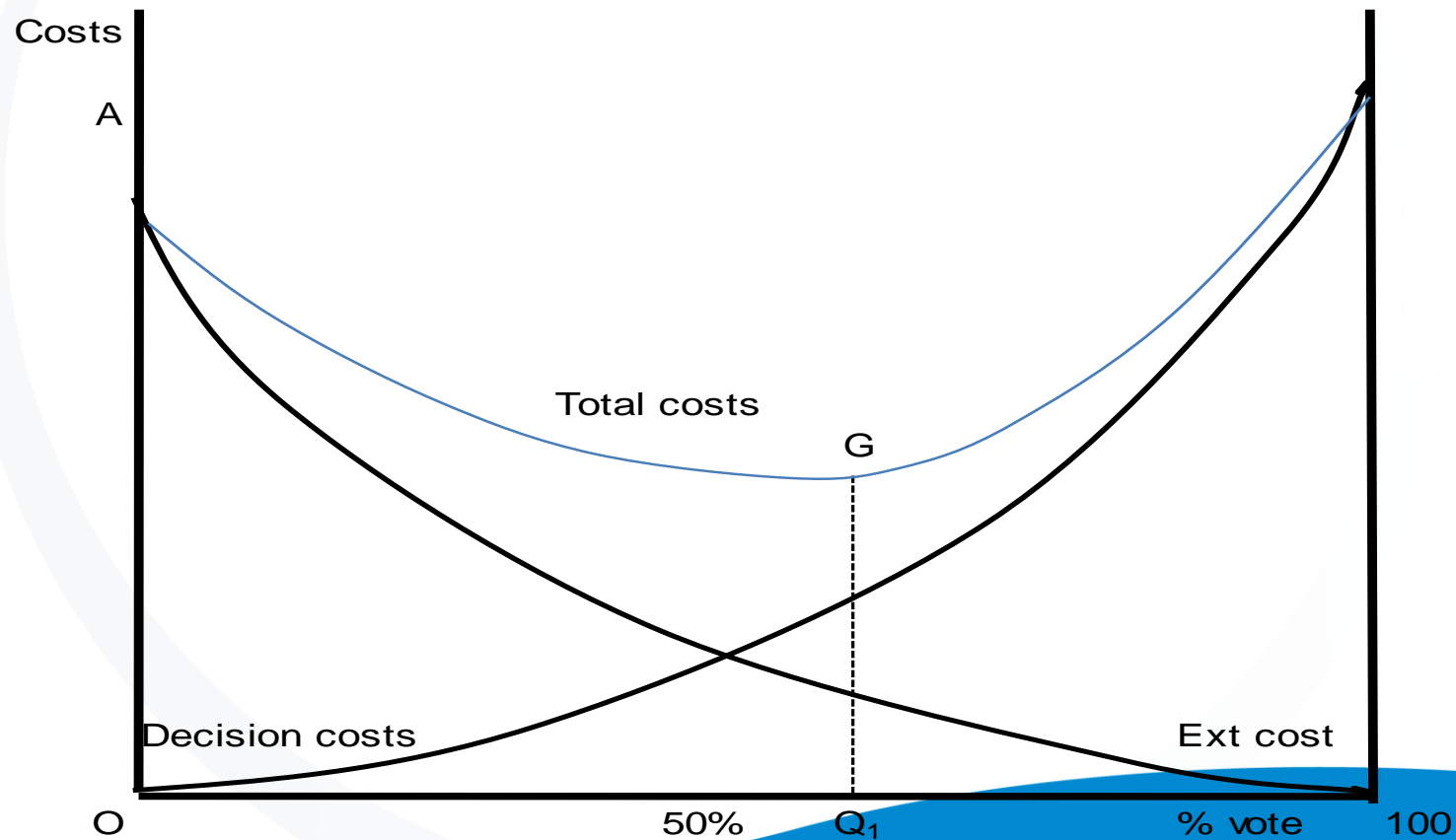
- Preference intensifies

Optimal voting rules

- Anything between unanimity & majority?
- Buchanan & Tullock (1962)

Optimal voting rules

- Fig.6.1 (BCS)



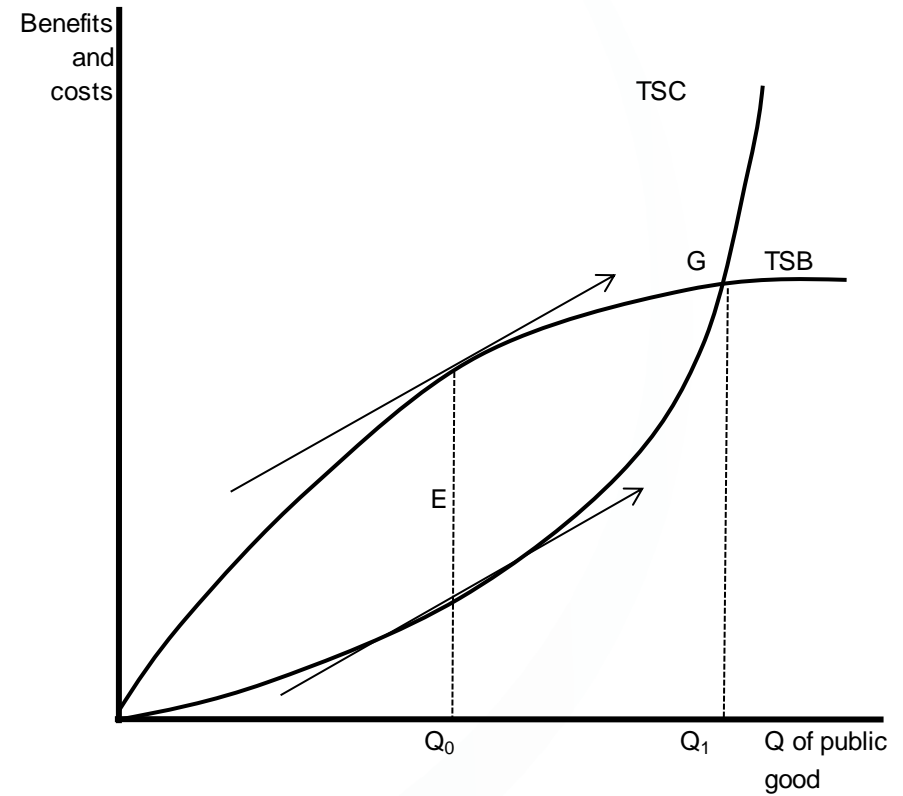
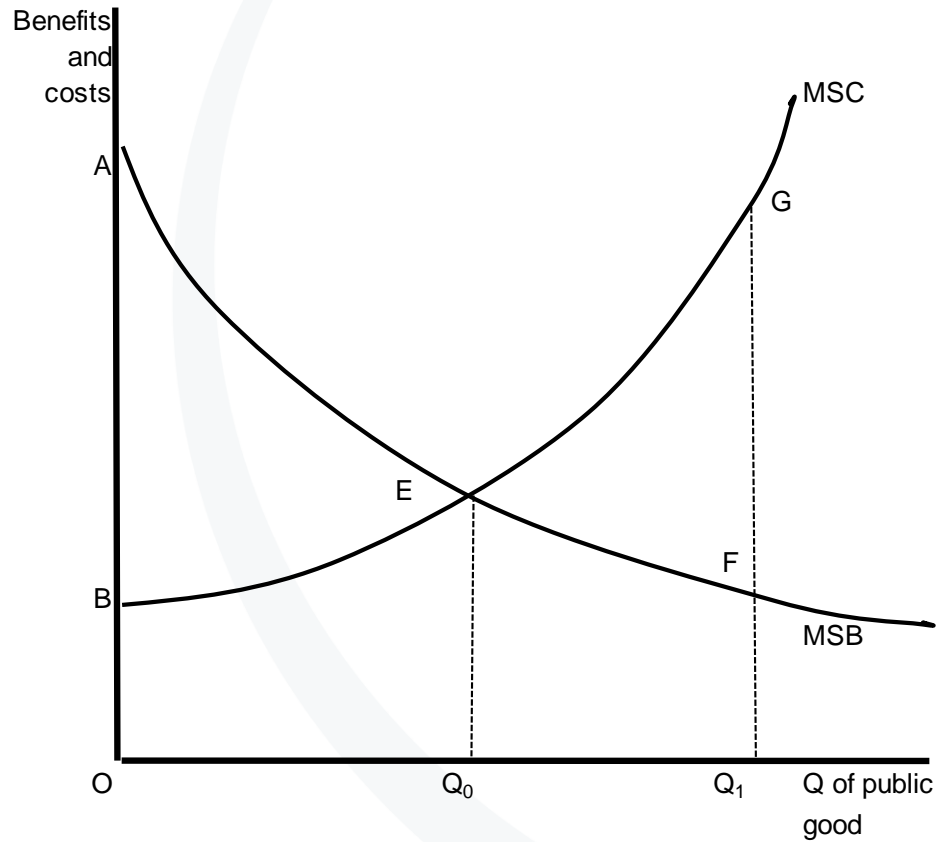
Government failure

- Government failure worst form of failure in market
- 3 Sources:
 - Rational behaviour of politicians
 - Rational behaviour of bureaucrats
 - Rational behaviour of citizens & interest-groups – rent-seeking
- Implicit logrolling
- Constitutional failure

Bureaucratic failure

- Niskanen (1971)
- Bureaucrats act on the size of departments
- Principle-agent problem
- Poor correlation - bureaucrats and voters
- Not practical in real world
- Rent-seeking
- James Buchanan et al (1980)
- Can lead to social waste

Bureaucratic failure



Rent-seeking

