Problem set 6 – ECON 4921, November 16, 2009

1) What is a common pool problem? Give examples.

2) What characterizes a local public good? Give examples.

3) Consider Besley and Coates' model of provision of local public goods
   a. What is the normative benchmark?
   b. Assume first, that the national government choose a uniform provision of local public goods to maximize aggregate surplus.
      1. When will the decentralized solution maximize aggregate surplus?
      2. When will the centralized solution maximize aggregate surplus?
   c. Assume now that policies at the national level is chosen by 'selfish' local representatives (uniform financing).
      i. Decentralization:
         1. What is the optimal type of representative from the perspective of a voter with a public good preference parameter λ?
         2. When will the decentralized solution maximize aggregate surplus?
      ii. Centralization
         1. What is the optimal type of representative from the perspective of a voter with a public good preference parameter λ?
         2. When will the centralized solution maximize aggregate surplus?
   d. Why is the assumption of additive utility important?