

Fundamentals of Public Economics

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Abstract

This text by one of Europe's leading economists covers a wide variety of public economics issues with great clarity and precision, illustrating them with a wealth of carefully-chosen examples and problems. Starting from theories of general equilibrium analysis, Laffont considers issues of market failure, collective decisionmaking, and distributional equity. He analyzes the important informational and motivational problems involved in planning solutions for market failures, and provides a rigorous justification for the theoretical foundations of public economics. Topics include the theories of externalities, public goods, collective choice, consumer surplus, cost-benefit analysis and/or theory of the second best, incomplete markets, and nonconvexities. For each Laffont begins with the classical foundations, moves on to consider the topic within a simple model of the economy, and concludes by integrating results from recent journal articles into this simple framework. In this way students are led to understand the classical tradition in the context of modern general equilibrium theory. The book concludes with eight problems with solutions, each interesting and rich enough to be considered a case study, and nine exercises without solutions; together they provide an excellent review of material covered in the text. The basic

approach in each problem is to set up a general equilibrium model, discover the market failure by calculating the unfettered equilibrium, and develop an explicit planning solution.

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