

<b>Course Title</b>	Collective Decision Making
<b>Course Level</b>	Graduate / M1
<b>Domain</b>	Economics
<b>Language</b>	English
<b>Nb. Face to Face Hours</b>	36 (3hrs. sessions)
<b>E-learning Support</b>	Mycourse yes
<b>ECTS</b>	6

## Course Title

Collective Decision Making

## Professor

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## Language

English

## Overview

This course is an advanced microeconomics course. It builds on the theory of consumer choice and the theory of the firm, more in particular on the optimal choice of how much to consume and how much to produce in a competitive economy. After briefly reviewing the concepts of Pareto-efficiency and equilibrium in a competitive economy, the course focuses on the market failures due to the presence of public goods and externalities. The second part of the course considers the issues of collective decision making: voting procedures and the difficulties of achieving outcomes that are the expression of the voters' will.

## Prerequisites

### Fundamentals of microeconomic theory:

- 1) Consumer choice theory. The analysis of optimal consumer choice under certainty (types of consumers' preferences, indifference curves, budget constraint, relative prices, optimal consumption choice).
- 2) The production choice of firms in a competitive economy. Production functions, production costs (total, average and marginal costs, the marginal rate of transformation), iso-profit lines.
- 3) Equilibrium outcomes (consumer choice and production choices) in a competitive economy.

Fundamentals of maths : derivatives, rules of differentiation, constrained optimization problems.

## Course Objectives

The course will concentrate on the failures of individual actions to achieve outcomes of collective interest. After reviewing the concept of equilibrium and efficiency of the competitive economy, the course will focus on two cases of departure from efficiency: the voluntary provision of public goods and externalities. This module will discuss what the problems are and how the design of appropriate incentive mechanisms might overcome them.

After considering the potential market failures and the need for government intervention, an overview of the growth and activities of the public sector in developed countries is presented.

Important questions arising from this evidence, which will be subsequently addressed, are “why is there a public sector?”, “Would not it be possible for economic activity to function satisfactorily without government intervention?”, “Has the government grown too much?”. The logic of collective-decision-making will then be analysed, focusing on voting rules and on activities to influence government actions, like rent-seeking and lobbying.

## Learning Outcomes

This course is designed to help students think analytically about the ways decisions are made in the political and economic area. The aim of the module is to provide an understanding of the effects of government policy upon the economy. It will also generate in students an appreciation of how individuals make decisions in groups and how they cope with collective choice problems such as the provision of public goods and the correction of externalities.

## Mode of Assessment

50%(midterm test result+participation evaluation)+50% final exam result.

Participation evaluation: overall attendance and participation in class and effort to solve exercises on a weekly basis. The mark for participation can vary from -2/20 to +2/20.

## Course Schedule

1	A review of Consumer Choice Theory
2	The Edgeworth box : equilibrium and efficiency in a competitive economy. Circumstances in which the government intervention is required.
3	Evidence on the growth of the Public Sector in developed countries.
4	Public Goods
5	The problem of private-sector under-provision of public goods. Mechanism design to correct free-riding problems.
6	Impure Public Goods: Club goods and Local Public Goods

7	Externalities
8	Mechanisms to correct externalities: Pigouvian taxation, Licences, Internalization and the Coase theorem
9	Issues of collective decision making: the Arrow impossibility theorem
10	Voting procedures: the advantages and limitations of majority voting
11	Other voting procedures
12	Exam

## Bibliography

Main textbooks:

- Jean Hindriks and Gareth Myles, 2013, second edition Intermediate Public Economics (main textbook for the course), the MIT Press
- Jonathan Gruber, 2013, fourth edition. Public Finance and Public Policy, Worth Publishers. (available in the student library of Dauphine)
- Mancur Olson, 1971 The Logic of Collective Action: Public goods and the theory of groups

### Other recommended reading:

- Todd Sandler, 1992, "Collective Action: Theory and applications", Ann Arbor University of Michigan Press
- Andreoni James, 1993, "An experimental test of the public-goods crowding out hypothesis", *American Economic Review*, vol. 83, pp1317-1327.
- Harison, Glen and Jack Hirshleifer, 1989, "An experimental evaluation of Weakest Link/Best Shots Models of Public Goods, *Journal of Political Economy*, vol. 97, pp. 201-225.
- Kim, Oliver and Mark Walker, 1984, "The Free-Rider problem: Experimental evidence", *Public Choice*, vol. 43, pp. 3-24.

## MyCourse

This course is on MyCourse : **Yes**

## Grading

The numerical grade distribution will dictate the final grade.

**Class participation:** Active class participation – this is what makes classes lively and instructive. Come on time and prepared. Class participation is based on quality of comments, not quantity.

**Exam policy:** In the exam, students will not be allowed to bring any document (except if allowed by the lecturer). Unexcused absences from exams or failure to submit cases will result in zero grades in the calculation of numerical averages. Exams are collected at the end of examination periods.

## Academic integrity

Be aware of the rules in Université Paris Dauphine about plagiarism and cheating during exams. All work turned in for this course must be your own work, or that of your own group. Working as part of a group implies that you are an active participant and fully contributed to the output produced by that group.