Hog Farm
Suburb

smell
MR=P

external cost

remedy → costly

Q	MPC	MB	MSC	Cost + Tax
1	400	1600	400	800
S 2	800	1600	800	1600
3	1200	1600	900	2100
P 4	1600	1600	1000	2600
5	3200	1600	1200	
6	6400	1600	1400	

Houses

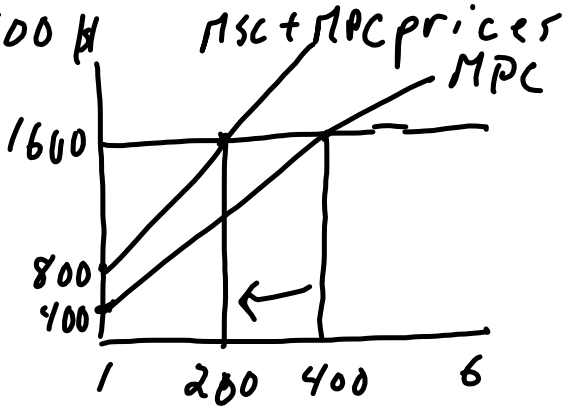
HF

Houses

smell

$(P_{HU} - P_{HD})$

Hedonic

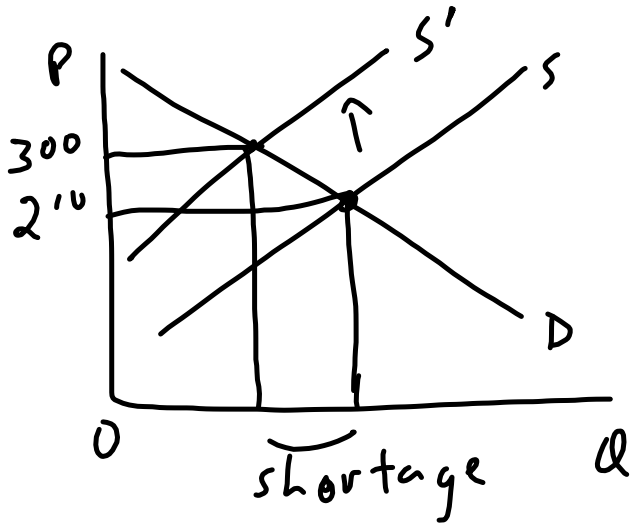


Tax - remedy

MPC' = MSC + MPC

↙ rebate tax

e.g. property tax ↓


P
S'
S
300
210
D
0
shortage
Q

Why disconnect between economic theory + policy actions?

- unintended consequences

- wealth tax on cars

28 states 0.3% 3.0%

average age ↑ value ↓ → tax ↓

1.1 years to age - more miles
- older emission reduction technology

Simulated air quality Mobile6

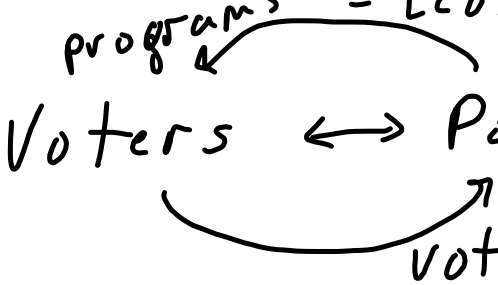
air quality ↓

Political Economy chapter 6

James Buchanan - Nobel Prize

↳ Public Choice

Anthony Downs 1957 - Economic Theory of Democracy



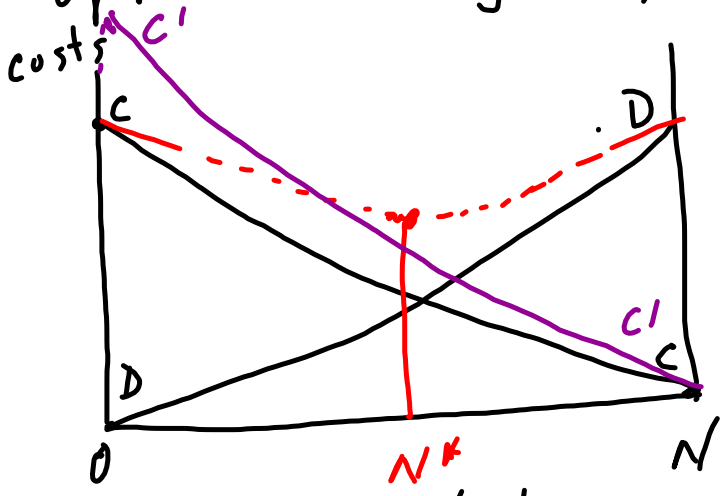
$U_V(I-t)$ U_p(Prob Elected)

U_p(votes) optimal (majority 50+ε%

min. winning coalition

Institutional Rules

optimal majority ?



CC - coercion costs
DD - decision costs
CC+DD Total
N* optimal / majority

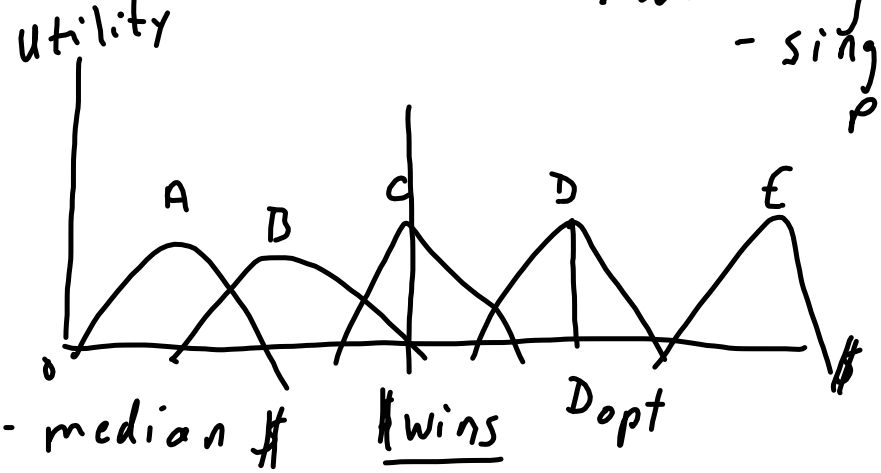
→ unanimity

Majority 50+ε% - simple majority
Supermajority - coercion cost ↑
cost min. maj ↑ - Amendment

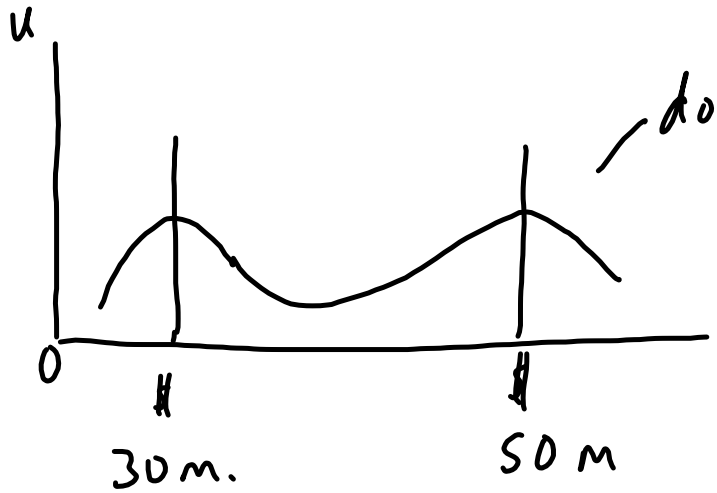
Simple majority - single issue
- direct voting

Ballot initiatives –
local sales tax ↑
Y or N ? 50+ε %

- Downs → median voter theorem
↳ winning coalition
- single peak preferences



3 voters to win - BCD



double peaked preferences - no stable outcome

5-6 pages in chapter 6 - stop "Logrolling"

skip Arrow's Impossibility Theorem