

End-of-chapter Questions

Chapter 22: Efficiency and Equity Issues with Mobile Resources

1. Why did Charles Tiebout believe that a federal government would lead to a more efficient allocation of public (nonexclusive) goods than having a single government?
2. Is a federal government necessarily more efficient than having a single government? Explain.
3. Models of federalism that describe how people move in response to local tax and expenditure decisions differ along a number of dimensions. Name three of these dimensions and describe how they differ in the models by Joseph Stiglitz and Mark Pauly presented in the chapter.

The following four questions refer to the Stiglitz model of local government with a mobile population presented in the chapter.

4. Why must people have the same utility in equilibrium no matter in which locality they choose to live?
5. Why does the maximum utility available to each person living in a locality first rise and then fall as more people enter the locality?
6. Will each locality have the same number of people in equilibrium? Why or why not?
7. What is the standard efficiency condition for a nonexclusive good? Does it hold in the Stiglitz model?

The following three questions refer to the Pauly model of local government with a mobile population presented in the chapter.

8. What are the two equilibrium conditions in the model?
9. Why is an equilibrium difficult to achieve, or, if achieved, difficult to maintain?
10. What role does the housing market play in achieving equilibrium? Use as an example large and small families moving from locality to locality, in which everyone wants to

live with the small families because there will be fewer children to educate and therefore lower educational expenditures and property tax rates.

11. a. Why is there a tendency for a race to the bottom across nations regarding tax rates on income from capital?
 - b. Why is the race to the bottom inefficient?
 - c. Why is a race to the bottom less likely to occur in the taxation of labor income?
12. a. Under what conditions is local redistribution most difficult to implement?
 - b. What happens to local governments that do try to redistribute under these conditions? Explain.
13. Why do some economists fear that there may be a race to the bottom with state and local transfers to the poor?