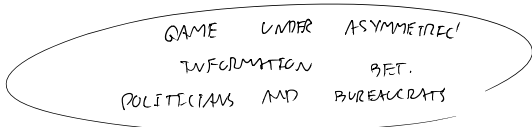


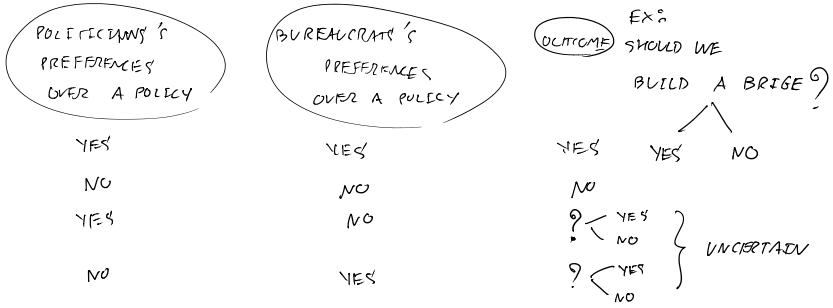
BUREAUCRACY (PUBLIC EMPLOYEES OR BUREAUCRATS)



POLITICIANS ACT AS UNINFORMED AGENTS CONCERNING CONSEQUENCES OF POLICIES. BUREAUCRATS ACT AS INFORMED AGENTS AS THEY POSSESS INFORMATION AND DATA CONCERNING POLICIES AND THEIR EXPECTED OUTCOMES



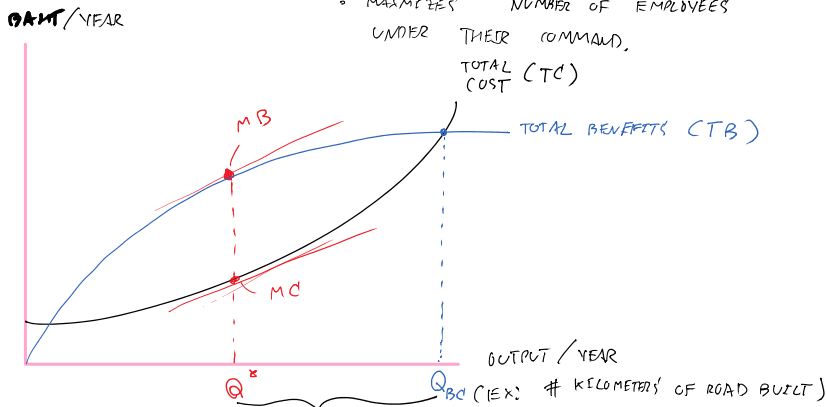
SOMETIMES, BUREAUCRATS TELL A LIE ABOUT CONSEQUENCES OF POLICIES TO POLITICIANS:



PROF. MISHKIN OFFERS A MODEL THAT HELPS EXPLAINING BUREAUCRATS' BEHAVIOR

OBJECTIVE OF BUREAUCRATS:

- MAXIMIZE BUDGETS RECEIVED FOR PUBLIC SPENDING.
- MAXIMIZE NUMBER OF EMPLOYEES UNDER THEIR COMMAND.



FROM BUREAUCRATS' VIEWPOINT, OUTPUT SHOULD BE EXPANDED AS LONG AS TOTAL BENEFITS (TB) IS HIGHER THAN TOTAL COSTS (TC), THEREFORE Q_{bc} IS THE OUTPUT THEY WANT TO PURSUE.

FROM ECONOMIC'S VIEWPOINT, Q_{bc} IS AN INEFFICIENT OUTPUT LEVEL (WHY?)

MARGINAL BENEFIT - MARGINAL COST RULE SUGGESTS THAT OPTIMAL OUTPUT MUST BE AT Q WHERE $MB = MC$ (AT Q^*)

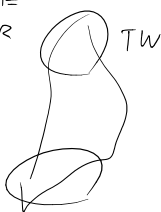
RESULT? \Rightarrow OVERSPENDING OF GOVT. BUDGET!

NEXT,

SPECIAL INTEREST GROUPS

INSTEAD OF ACTING ALONE TO PUT PRESSURE ON GOVERNMENT ON A CERTAIN ISSUE THAT YOU STRONGLY DISAGREE/AGREE, YOU MIGHT FORM "A GROUP OF PEOPLE" THAT SHARES COMMON INTERESTS ON A CERTAIN ISSUE, WITH HOPE, A SIG WOULD LIKE GOVT TO PURSUE A POLICY THAT IS ALIGNED W/ THE INTERESTS OF THE GROUP.

ESTABLISHMENT OF SIG

- SIZE OF INCOME: RICH VS POOR
- SOURCE OF INCOME: INDUSTRY THAT THEY ARE WORKING IN
 - AGRI
 - INDUSTRY
 - SERVICE SECTOR
- REGIONS: N, NE, S, E 
- DEMOGRAPHIC AND PERSONAL CHARACTERISTICS:
 - ELDERLY PEOPLE VS YOUNG COUPLE
 - GENDER

MAIN QUESTIONS IN SIG RESEARCH

- ① HOW DO SIGs DERIVE THEIR POWER AND INFLUENCE?
- ② WHAT FACTORS DETERMINE THE DEGREE THAT A SIG IS ABLE TO AFFECT POLICY OUTCOMES?
- ③ WHAT HAPPENS WHEN GROUPS W/ DIFFERENT OBJECTIVES/GOALS COMPETE FOR INFLUENCE?

FRAMEWORK FOR TAX ANALYSIS

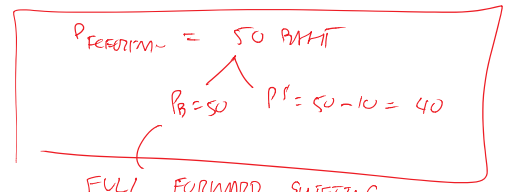
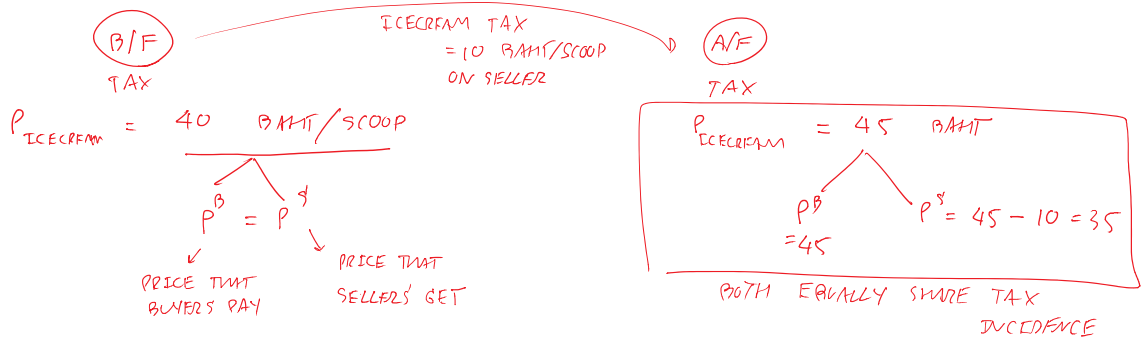
- TAXATION AND INCOME DISTRIBUTION (ROSEN, CH. 14)
- TAXATION AND EFFICIENCY (ROSEN, CH. 15)

TAXATION AND INCOME DISTRIBUTION

TWO MAIN CONCEPTS OF HOW A TAX IS DISTRIBUTED.

STATUTORY INCIDENCE: WHO IS "LEGALLY" RESPONSIBLE FOR THE TAX.

ECONOMIC INCIDENCE : WHO IS "ACTUALLY" RESPONSIBLE TO PAY THE TAX.
 THE TWO CONCEPTS DIFFER B/C' OF "TAX SHIFTING"



OF COURSE, ABILITY OF SELLERS TO SHIFT THE TAX BURDEN TO BUYERS CRITICALLY DEPENDS ON PRICE ELASTICITY OF DEMAND & SUPPLY

