

## **Local Residential Sorting and Public Goods Provision: A Classroom Demonstration**

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Students in undergraduate public finance courses learn that market provision of public goods is generally inefficient due to the non-excludable and non-rival characteristics of such goods. Centralized government provision of locally consumed public goods may also prove inefficient due to heterogeneous preferences or heterogeneous opportunity costs. Accordingly, neither centralized nor market institutions are likely to efficiently provide local public goods. This classroom exercise illustrates the Tiebout hypothesis that residential sorting across multiple jurisdictions leads to a more efficient allocation of local public goods (*Journal of Political Economy*, 1956). The exercise also demonstrates problems that arise when certain assumptions of the Tiebout model are not met. The classroom at first comprises a single community of students with heterogeneous preferences for a public good (dorm parties); the students determine the level of taxation to be used for public good provision via a simple voting mechanism. Next, the classroom divides into two communities, each of which determines its own level of public good provision. Then the students have the opportunity to relocate to the community where the bundle of public goods and taxes better suits their tastes. At first some students must stay in their original location, but in the final treatment all students become mobile. After each round of sorting, each community determines a new level of public good provision. Students see how welfare rises as sorting becomes more complete. This game highlights the usefulness of markets in general and the assumptions necessary for a well-functioning market to reach an efficient outcome. The third round of the exercise may foster classroom discussion about “white flight” from inner-city school districts, as it shows how some immobile individuals become worse off when mobile individuals move.

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