

Economics 141
Seminar in Public Economics
Spring 2017

Professor Bronchetti
ebronch1@swarthmore.edu

Office hours: Tues. 1:00-3:00 & by appt.
Kohlberg 212, x6140

OVERVIEW

This two-credit seminar surveys the field of Public Finance, which explores the rationales for and consequences of government intervention in markets. The seminar begins with a review of welfare economics, the conditions associated with an “unfettered” market achieving an efficient allocation of resources, and situations in which a free market may fail to achieve efficiency. With this background, we study the activities of the government in the market economy of the United States. We examine how decisions are made about government interventions in markets, what kinds of expenditure activities the U.S. government pursues, how those activities are financed through revenue collection, and the effects of both expenditure and taxation programs on individual behavior and well-being.

The seminar not only covers the theoretical foundations of Public Finance but also integrates institutional background and empirical evidence into discussions of many important and relevant policies. A primary goal is for students to understand the economic principles that determine optimal government intervention in market economies and to be prepared to apply those principles to current policy debates.

PREREQUISITES AND RECOMMENDED COURSES

The prerequisite courses are Intermediate Microeconomics (Ec 11) and Introduction to Econometrics (Ec 31) or its equivalent. History has shown that students who have performed well in these two courses have been successful in this seminar and have enjoyed the assignments. The empirical content of the seminar is such that Econometrics (Ec 35) or some background in statistical analysis is advantageous. Students who feel concerned about the empirical readings should see me to talk about additional preparation or support materials. If you are struggling to understand econometric methods used in the journal articles we read (after reading through the same article several times and referring to sources like Wooldridge and your classmates), please do not hesitate to discuss this with me.

GRADING

Grades for the seminar will be determined as follows:

General participation and preparedness	25%
Article review presentations (2)	25%
Seminar paper and presentation	25%
Final exam	25%

POLICIES

Late assignments – In the absence of an unexpected illness (documented by Worth), I will not accept late assignments unless requested by the Dean’s office to do so.

Academic Dishonesty – Acts of academic dishonesty will be reported to the Dean’s office and punished in accordance with College policy. Please see me if you have questions about what constitutes plagiarism or how to avoid plagiarism in your writing.

TEXTS AND OTHER SOURCES

REQUIRED TEXT

J. Gruber, *Public Finance and Public Policy*, 4th edition (New York: Worth Publishers, 2008).

USEFUL TEXTS (IN HONORS RESERVES IN MCCABE)

A. Auerbach and M. Feldstein, *Handbook of Public Economics: Volumes 1-4*. (Amsterdam: North Holland, 1985, 1987, 2003).

J. Hindriks and G. Myles, *Intermediate Public Economics*, (Cambridge: MIT Press, 2006).

D. Mueller., *Public Choice III*, (New York: Cambridge University Press, 2003).

H. Rosen and T. Gayer, *Public Finance*, 8th edition (New York: McGraw-Hill, 2008).

J. Stiglitz, *Economics of the Public Sector* (New York: W.W. Norton, 2000).

J. Wooldridge, *Introductory Econometrics: A Modern Approach* (Mason, OH: Thompson-Southwestern, 2006).

J. Angrist and J.S. Pischke, *Mostly Harmless Econometrics: An Empiricist's Companion*. (Princeton: Princeton University Press, 2008).

OTHER USEFUL RESOURCES

Committee on Ways and Means, Green Book – 2008 edition available online at <http://waysandmeans.house.gov/Documents.asp?section=2168>

National Bureau of Economic Research Working Papers Series (www.nber.org)

Congressional Budget Office (www.cbo.gov)

Brookings Institution (www.brookings.edu)

Urban Institute (www.urban.org)

Economic Policy Institute (www.epi.org)

Center on Budget and Policy Priorities (www.cbpp.org)

American Enterprise Institute (www.aei.org)

RELEVANT JOURNALS (AND ABBREVIATIONS)

Journal of Public Economics (JPubE)

National Tax Journal (NTJ)

Journal of Economic Perspectives (JEP)

Journal of Political Economy (JPE)

American Economic Review (AER)

Journal of Economic Literature (JEL)

Journal of Health Economics (JHE)

Economic Journal (EJ)

Economic Inquiry (EI)

American Economic Journal – Applied Economics (AEJ: Applied)

American Economic Journal – Economics Policy (AEJ: Policy)

REQUIREMENTS AND STRUCTURE OF SEMINAR MEETINGS

1. There will be problems and discussion questions assigned each week from Gruber, previous honors exams, and other sources. The problem set for a certain date is to be completed before that date's class meeting. We will generally begin each meeting with a brief introduction to the theory underlying that day's topic. Sometimes this introduction will involve a mini-lecture from me, but often we will use your problem sets to guide this part of our discussion. Each student should be prepared to present his/her work at the board, and students will be chosen at random to do so. While I encourage you to work in pairs or groups on these problems, each student should write up answers *individually*, as you will be evaluated on your ability to present your answers clearly and answer follow-up questions. No free-riding!

2A. There will be additional outside readings for each seminar meeting, on which student presentations will be based. (These are indicated with asterisks under the date of each seminar meeting on the reading list below.) Students are expected to have done all of the readings and to be prepared to ask questions and engage in a lively discussion of the readings. Most of these readings are difficult, either theoretically or methodologically. At a very basic level, you should think about these questions as you read:

- *What question does the paper ask? How does this fit in with the economic theory/models you have learned?*
- *What data are used? What are the key (independent and dependent) variables?*
- *What is the empirical strategy, i.e., what is the source of variation in "treatment"? Do you believe this variation is plausibly exogenous with respect to the outcome of interest?*
- *What are the results and their interpretation? Do the results seem plausible? Are they important? What are their policy implications?*
- *What do you learn from the paper? Does it give you other ideas? Are there things about the paper that you didn't like?*

2B. In lieu of writing seminar papers, students will (in teams of 2) present the readings for their classmates as a way of exploring the public economics literature. The suggested format for these presentations is PowerPoint or something similar. Presentations should last **approximately 30 minutes**, and you should spend approximately two-thirds of your time summarizing and describing the articles. That is, you should plan to devote 10 minutes to offering your own comments and critiques of the study, suggesting avenues for future research, and taking questions from your classmates. A good presentation should lead naturally into further class discussion, and presenters will be evaluated not only on the content of their presentation but on the extent to which they are able to facilitate this. Non-presenters will be evaluated on their participation and preparedness to engage in such discussion.

3. Each student will write a term paper of approximately 15-20 pages on a topic in public economics. This paper will take the form of a critical review of the literature or an empirical analysis on a research question of interest to you. A list of possible topics will be provided, and topics will be assigned on a first-come, first-serve basis. If you have a topic in mind that is not on the list, you should discuss it with me and get my approval of the topic. More information on the details of the term paper assignment will be distributed in the next two weeks.

The deadlines for the paper are as follows:

<i>Sunday, Feb. 12</i>	<i>2-4 sentence description(s) of proposed topic(s) or topic areas</i>
<i>Friday, March 3</i>	<i>Statement of proposed research and preliminary bibliography</i>
<i>Monday, April 3</i>	<i>Annotated outline</i>
<i>Monday, April 24</i>	<i>Almost-final draft (email to classmates and me by midnight)</i>
<i>Thursday, April 27</i>	<i>Presentations</i>
<i>Sunday, April 30</i>	<i>Final draft due by midnight</i>

COURSE OUTLINE

DATE	Topic	Assignment due
January 19	Introduction and Review: Welfare Economics and Efficiency Conditions	Introductions Get organized
January 26	Methodology and Empirical Tools	Problem set #1
February 2	Externalities	Problem set #2 * External Benefits of Education
February 9	Public Goods	Problem set #3 * Using Market Prices to Infer the Value of Public Goods
February 16	Cost-benefit Analysis Political Economy	Problem set #4 * Evidence on Median Voter Theorem
February 23	Fiscal Federalism Education	Problem set #5 * School Choice and Student Performance
March 2	Social Insurance	Problem set #6 * UI, Consumption Smoothing & Moral Hazard
March 9	SPRING BREAK	
March 16	Social Security	Problem Set #7 <i>Short response papers and discussion</i>
March 23	Health Insurance, Medicare, Medicaid	Problem set #8 * Effects of Public Insurance on Health
March 30	Welfare, Income distribution, EITC	Problem set #9 <i>Short response papers and discussion</i>
April 6	Tax Incidence and Efficiency	Problem set #10 * Tax Saliency
April 13	Behavioral Effects of Taxation	Problem set #11 * Tax Rates and Taxable Income
April 20	Corporate Taxation Tax Reform	Problem set #12 <i>Short response papers and discussion</i>
April 27	Presentations of Papers	Rough draft due by Monday, Apr. 24 (10 p.m.) Final draft due by Sunday, Apr. 30 (10 p.m.)

READING LIST AND OVERVIEW

MEETING 1 – January 19th

INTRODUCTION AND REVIEW:

WELFARE ECONOMICS AND EFFICIENCY CONDITIONS

Gruber 1, 2, 4
Rosen 3

Snack sign-ups
Presentation sign-ups

MEETING 2 – January 26th

EMPIRICAL TOOLS AND METHODOLOGY

Gruber 3

Manski, Charles F. (2003). "Identification Problems in the Social Sciences and Everyday Life," *Southern Economic Journal*, 70(1), 11-21.

Meyer, Bruce D. (1995). "Natural and Quasi-Experiments in Economics," *Journal of Business and Economic Statistics*, 13(2), pp. 151 – 161. (**Note: Read sections 1 and 2.**)

Angrist, Joshua D., and Alan B. Krueger (2001). "Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments," *Journal of Economic Perspectives*, 15(4), 69-85.

Kearney, Melissa S., and Phillip B. Levine (2015). "Media Influences on Social Outcomes: The Impact of MTV's 16 and Pregnant on Teen Childbearing," *American Economic Review*, American 105(12), pp. 3597-3632.

Chay, Kenneth Y., and Michael Greenstone (2003). "The Impact of Air Pollution on Infant Mortality: Evidence from Geographic Variation in Pollution Shocks Induced by a Recession," *Quarterly Journal of Economics*, 118(3): 1121-1167.

MEETING 3 – February 2nd

EXTERNALITIES

Gruber 5, 6
Martin Feldstein, "The Exploding Carbon Tax," *The Weekly Standard*, June 22, 2009.

* Dee, Thomas S. (2004). "Are There Civic Returns to Education?" *Journal of Public Economics*, 88, 1697-1720.

* Lochner, Lance, and Enrico Moretti (2004). "The Effect of Education on Crime: Evidence from Prison Inmates, Arrests, and Self-Reports," *The American Economic Review*, 94(1), 155-189.

MEETING 4 – February 9th
PUBLIC GOODS

Gruber 7

Hindriks and Myles, Chapter 5 (sections 5.1 through 5.4 and 5.6)

Samuelson, Paul A. (1954) “The Pure Theory of Public Expenditure,” *Review of Economics and Statistics*, Vol. 36, No. 4, pp. 387-389.

Marwell, G., and R. Ames, “Economists Free-Ride, Does Anyone Else?” *Journal of Public Economics*, 15, 1981, 295-310.

* Sandra Black, “Do Better Schools Matter? Parental Valuation of Elementary Education” (1999), *Quarterly Journal of Economics*, pp. 577-599.

* Currie, Janet, Lucas Davis, Michael Greenstone, and Reed Walker (2013). “Environmental Health Risks and Housing Values: Evidence from 1,600 Toxic Plant Openings and Closings,” *American Economic Review*, 105(2), pp. 678-709.

MEETING 5 – February 16th
COST-BENEFIT ANALYSIS AND POLITICAL ECONOMY

Gruber 8, 9

Persky, Joseph (2001). “Cost-Benefit Analysis and the Classical Creed,” *Journal of Economic Perspectives* 15(4), 199-208.

Viscusi, W. Kip (2015). “The Heterogeneity of the Value of Statistical Life: Evidence and Policy Implications,” in Carol Mansfield and V. Kerry Smith, eds., *Benefit-Cost Analyses for Security Policies: Does Increased Safety Have to Reduce Efficiency?* (Cheltenham, UK: Edward Elgar Publishing, 2015), pp. 78-116. ([Read only through page 99.](#))

* Mullainathan, Sendhil, and Ebonya Washington (2009). “Sticking with Your Vote: Cognitive Dissonance and Political Attitudes.” *American Economic Journal: Applied Economics* 1(1): 86-111.

* Levitt, Steven D. (1996). “How Do Senators Vote? Disentangling the Role of Voter Preferences, Party Affiliation, and Senator Ideology,” *American Economic Review*, 86(3), 425-441.

MEETING 6 – February 23rd
FISCAL FEDERALISM AND EDUCATION

Gruber 10, 11

Tiebout, Charles M. (1956). “A Pure Theory of Local Expenditures,” *The Journal of Political Economy*, 64(5), 416-424.

Oates, Wallace E. (1981). “On Local Finance and the Tiebout Model,” *American Economic Review (Papers and Proceedings)*, 71(2), 93-98.

* Hoxby, Caroline M. (2000). “Does Competition Among Schools Benefit Students and Taxpayers?” *American Economic Review* 90(5), 1209-1238.

* Deming, David, Justine S. Hastings, Thomas J. Kane, and Douglas O. Staiger (2014). “School Choice, School Quality, and Postsecondary Attainment,” *American Economic Review*, 104(3): 991-1013.

MEETING 7 – March 2nd
SOCIAL INSURANCE

Gruber 12, 14

- * Gruber, Jonathan (1997). “The Consumption Smoothing Benefits of Unemployment Insurance,” *American Economic Review*, 87 (1), 192-205.
- * Chetty, Raj (2008). “Moral Hazard vs. Liquidity and Optimal Unemployment Insurance,” *Journal of Political Economy*, 116(2), 173-324.

MEETING 8 – March 16th
SOCIAL SECURITY

Gruber 13

Supplemental textbook chapter(s), available on Moodle

Summary of the Social Security Trustees Report (2016) <http://www.ssa.gov/oact/TRSUM/index.html>

Congressional Budget Office Memorandum (1998). “Social Security and Private Saving: A Review of Empirical Evidence.”

Diamond, Peter A., and Peter Orszag (2005). “Saving Social Security: The Diamond-Orszag Plan,” *The Economists’ Voice*, 2(1), Article 8.

MEETING 9 – March 23rd
HEALTH INSURANCE, MEDICARE, MEDICAID

Gruber 15, 16

- * Finkelstein, Amy, Sarah Taubman, Bill Wright, Mira Bernstein, Jonathan Gruber, Joseph P. Newhouse, Heidi Allen, Katherine Baicker (2012). “The Oregon Health Insurance Experiment: Evidence from the First Year,” *Quarterly Journal of Economics*, 127(3), 1057-1106.
- * Baicker, Katherine Baicker, Sarah L. Taubman, Heidi L. Allen, Mira Bernstein, Jonathan H. Gruber, Joseph P. Newhouse, Eric C. Schneider, Bill J. Wright, Alan M. Zaslavsky, and Amy N. Finkelstein (2013). “The Oregon Experiment - Effects of Medicaid on Clinical Outcomes,” *New England Journal of Medicine*, 368:1713-1722.

MEETING 10 – March 30th
INCOME DISTRIBUTION, WELFARE, EITC

Gruber 17

Supplemental readings on Moodle.

MEETING 11 – April 6th
TAX INCIDENCE AND EFFICIENCY

Gruber 18, 19, 20

Feldstein, Martin (1997). “How Big Should Government Be?” *National Tax Journal*, 50(2), 197-213.

Summers, Lawrence (1989). “Some Simple Economics of Mandated Benefits,” *American Economic Review Papers and Proceedings*, Vol. 79 (2), 177-183.

* Chetty, Raj, Adam Looney, and Kory Kroft (2009). “Salience and Taxation: Theory and Evidence,” *American Economic Review* 99(4): 1145-1177.

MEETING 12 – April 13th
BEHAVIORAL EFFECTS OF TAXATION

Gruber 21, 22, 23

* Feldstein, Martin (1995). “The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform,” *The Journal of Political Economy*, 103(3), 551-572.

* Goolsbee, Austan (2000). “What Happens When You Tax the Rich? Evidence from Executive Compensation,” *The Journal of Political Economy*, 108(2), 352-378.

MEETING 13 – April 20th
CORPORATE TAXATION
TAX REFORM

Gruber 24, 25

Hines, Jr., James R. (2007). “Taxing Consumption and Other Sins,” *Journal of Economic Perspectives*, 21(1), 49-68.

U.S. House of Representatives, Committee on Ways and Means (2016), “A Better Way: Our Vision for a Confident America” (Republican committee members’ blueprint for tax reform.)

Gale, William (2017). “Understanding the Republicans’ Corporate Tax Reform,” Brookings Institution Policy Brief.

MEETING 14 – April 27th
PAPER PRESENTATIONS

DINNER AT MY HOUSE – To be scheduled; will take place in very early May