

COURSE SYLLABUS
API-102A
Economic Analysis of Public Policy
Spring 2013

<u>Instructor</u>	<u>Office</u>	<u>Assistant</u>
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Office hours: Th. 10:30 a.m.-1 p.m. Appointments: <http://bit.ly/rD1vWv>

Class Time and Location: Tu.,Th. 8:40 a.m.-10:00 a.m.; L130

Teaching Fellow: Michael Law Michael.Law@hks.14.harvard.edu
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COURSE DESCRIPTION

This course builds upon the foundation of API-101A and develops microeconomic tools of analysis for policy problems using a variety of policy applications. The course is focused broadly on evaluating the rationale for government intervention in the economy and evaluating the efficiency, incentive, and distributional effects of government policies. Areas of application include cost-benefit analysis, taxation, income redistribution, health, education, infrastructure, and trade.

PREREQUISITES

The course presumes that students have prior preparation in microeconomics, typically API-101A. This A section assumes the ability to use calculus.

COURSE MATERIALS

Where copyright laws permit, readings or web links to readings are posted on the course web site. The remaining readings will be available in a set of course packets from the CMO.

There is no text book for this course. For students looking for a text book that covers much of the material in this class, *Public Finance* by Harvey S. Rosen and Ted Gayer (McGraw-Hill, 2009) or *Public Economics and Public Policy* by Jonathan Gruber (Worth, 2009) are fine choices.

GRADING

The formal course requirements are: completion of problem sets, one policy memo, a midterm

exam, and a final exam. Grades will be based 15% on problems and assignments, 20% on the memos, 25% on the midterm, and 40% on the final.

ASSIGNMENTS

Must be handed by the beginning of class (in the classroom) on the day they are due. Late assignments will receive no credit.

You may work on the problem sets in small groups. However, individual assignments must be written up ***individually, in your own words***. Please put the names of your study group member(s) on your assignments when it applies. Duplicate answers will be penalized as if the assignment were not submitted at all and subject to disciplinary review.

CODE OF CONDUCT

All course activities, including class meetings and assignments are subject to the HKS [Academic Code](#) and [Code of Conduct](#).

LAPTOP AND OTHER DEVICES POLICY

No policy for now...

SEATING

Choose one set during the first week of class. It will be permanent.

NAME CARDS

Please, bring them to every class.

COURSE SCHEDULE

Session Number	Date	Topic	Assignments Due
1	1/29	Introduction/CB-analysis	
2	1/31	CB Analysis: NPV and Discounting	
3	2/5	CB Analysis: Measuring Costs and Benefits	
4	2/7	CB Analysis: Distributional and GE Effects	Assignment #1
5	2/12	Tax Policy: Equity-Efficiency Tradeoffs	
6	2/14	Tax Policy: Behavioral Responses to Taxation	
7	2/19	Tax Policy: Taxes and Social Policy	
8	2/21	Welfare Policy	Assignment #2
9	2/26	Welfare Policy	
10	2/28	Memo Discussion	Memo #1
11	3/5	Budget Policy and Behavioral Economics	
12	3/7	Applications of Principal-Agent Theory to Government Contracting and Social Innovation	Assignment #3
13	3/12	Midterm	
14	3/14	Health care	
15	3/26	Health care	Memo #2
16	3/28	Education and human capital policy	
17	4/2	Education and human capital policy	
18	4/4	Immigration Policy	Assignment #4
19	4/9	Trade Policy	
20	4/11	Final Exam	

READINGS

Session 1: January 29th, 2012

- William Nordhaus, “Critical Assumptions in the Stern Review on Climate Change”, *Science*, July 13, 2007, 201-202.
- Stern, Nicolas, “The Economics of Climate Change: The Stern Review”, Cambridge University Press, Cambridge, UK, 2007, Executive Summary, pp. i-xxvii.

Session 2: January 31st, 2012

- Boardman, Greenberg, Vining, and Weimer, *Cost-benefit Analysis: Concepts and Practices*. (Upper Saddle River, NJ: Prentice Hall, 1996), Chapter 4, 119-158. [Course Packet].
- Willard Manning, Emmett B. Keeler, et al., “The Taxes of Sin,” *Journal of the American Medical Association*, March 17, 1989, vol. 261, no. 11, 1604-1609.
- Dalton Conley, “The Cost of Slavery,” *New York Times*, February 15, 2003.

Session 3: February 5th, 2012

- Averill, “Arsenic in Drinking Water,” Kennedy School of Government Case Program. [Course Packet].
- W. Kip Viscusi, John M. Vernon, and Joseph E. Harrington, Jr. “The Emergence of Health, Safety, and Environmental Regulation,” and “Valuing Life and Other Nonmonetary Benefits,” in *Economics of Regulation and Antitrust* (Cambridge: MIT Press, 2000), chapters 19 and 20, 691-743. [Course Packet].
- OPTIONAL READING: Edward Miguel and Michael Kremer, “Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities,” *Econometrica*, 74 (2004), 159-217.

Session 4: February 7th, 2012

- Eric J. Toder, Benjamin H. Harris, and Katherine Lim, “Distributional effects of tax expenditures”, Tax Policy Center, Urban Institute and Brookings Institution, July, 2009.
- OPTIONAL READING: Peter Kemper, David A. Long, and Craig Thorton, “Benefit-Cost Analysis of the Supported Work Experiment,” in *The National Supported Work Demonstration* (Madison: University of Wisconsin Press, 1984), chapter 8, 239-285.
- OPTIONAL READING: Boardman, Greenberg, Vining, and Weimer, *Cost-benefit Analysis: Concepts and Practices*. (Upper Saddle River, NJ: Prentice Hall, 1996), 71-74.

Session 5: February 12th, 2012

- Martin Feldstein, “The 28% Solution,” *Wall Street Journal*, February 16, 2001.
- Paul Krugman, “The Tax-Cut Con” *New York Times Magazine*, September 14, 2003.
- OPTIONAL READING: *The Economist*, “America’s taxes, Higher taxes the easier way”, November 17th, 2012.

- OPTIONAL READING: Worstall, Tim; “Why France's 75% Income Tax Rate Is Going To Be So Disastrous”, *Forbes*, September 28th, 2012.

Session 6: February 14th, 2012

- Martin Feldstein, “The Effects of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform,” *Journal of Political Economy* 103 (1995), 551-571.
- OPTIONAL READING: Saez, Emmanuel, “Do Taxpayers Bunch at Kink Points?”, *American Economic Journal: Economic Policy* 2 (August 2010): 180–212.
- OPTIONAL READING: Kim, Kyoo-il and Rodríguez-Pueblita, J.C.; “Do We Still Have Secondary Workers? The Evolution of the Labor Supply of Married Women’s Labor Supply in the US from 1983 to 2000”, Technical Research Paper, Congressional Budget Office, Washington, D.C., December, 2005.

Session 7: February 19th, 2012

- Summers, Lawrence H., “Some Simple Economics on Mandated Benefits”, *The American Economic Review*, Vol. 79, No. 2, Papers and Proceedings of the Hundred and First Annual Meeting of the American Economic Association (May, 1989), pp. 177-183.

Session 8: February 21th, 2012

- Jeffrey B. Liebman, “The Impact of the Earned Income Tax Credit on Incentives and the Income Distribution,” *Tax Policy and the Economy*, 12, 1998.
- OPTIONAL READING: Levy, Santiago, “Good Intentions, Bad Outcomes: Social Policy, Informality and Economic Growth in Mexico”, Brookings Institution Press, May 13, 2008, Introduction, pp. 1-9.

Session 9: February 26th, 2012

- Richard Zeckhauser and Albert L. Nichols, "Targeting Transfers through Restrictions on Recipients," *American Economic Review* 72(2), May 1982, 372-77.
- Vivi Alatas, Abhijit Banerjee, Rema Hanna, Benjamin Olken, and Julia Tobias, “Targeting the Poor: Evidence from a Field Experiment in Indonesia,” NBER Working Paper 15980, 2010.

Session 10: February 28th, 2012

- *The Economist*, “Asian welfare states, New cradles to graves”, September 8th, 2012.
- Page, John, “The East Asian Miracle: Four Lessons of Development Policy”, in *NBER Macroeconomics Annual*, Volume 9, Editors Stanley Fischer and Julio J. Rotemberg, MIT Press, January 19904, pp. 219-282.

Session 11: March 5th, 2012

- Richard Thaler and Cass Sunstein, “Libertarian Paternalism,” *American Economic Review*; May 2003, Vol. 93 Issue 2, pp. 175-179.
- Barry Eichengreen, Robert Feldman, Jeffrey Liebman, Jurgen von Hagen, and Charles Wyplosz, "The United States: Can the 1990s Fiscal Rebalancing Be Repeated?", Chapter 3 in *Public Debts: Nuts, Bolts, and Worries*, Geneva Report on the World Economy 13, CEPR and International Center for Monetary and Banking Studies, September 2011. <http://www.cepr.org/pubs/books/CEPR/Geneva13.pdf>
- OPTIONAL READING: Jeffrey Liebman, “Reforming Social Security: Not All Privatization Schemes are Created Equal,” *Harvard Magazine*, March/April 2005.
- OPTIONAL READING: William Congdon, Jeffrey Kling, and Sendhil Mullainathan, *Policy and Choice: Public Finance through the Lens of Behavioral Economics*, Brookings Institution Press, 2011.
- OPTIONAL READING: Richard Thaler and Cass Sunstein, “Nudge, Improving Decisions About Health, Wealth, and Happiness”, Penguin Books, 2009.

Session 12: March 7th, 2012

- Office of Management and Budget, “Increasing Competition and Structuring Contracts for the Best Results,” Memorandum for Chief Acquisition Officers and Senior Procurement Executives, October 27, 2009. http://www.whitehouse.gov/sites/default/files/omb/assets/procurement_gov_contracting/increasing_competition_10272009.pdf
- Jeffrey Liebman, “Social Impact Bonds: A Promising New Financing Model to Accelerate Social Innovation and Improve Government Performance,” Center for American Progress, February 2011.
- Nicholas Timmings, “Bond Project Aims to Cut Rate of Reoffending,” *Financial Times*, September 9, 2010.
- OPTIONAL READING: Stephanie Klietz, Charles Borduin, and Cindy Schaeffer, “Cost-Benefit Analysis of Multisystemic Therapy With Serious and Violent Juvenile Offenders” *Journal of Family Psychology*, 2010, 24:657-666.
- OPTIONAL READING: *The Economist*, “Social Impact Bonds, Being good pays”, August 18th, 2012.

Session 13: March 12th, 2012 MIDTERM

Session 14: March 14th, 2012

- Alain Enthoven, “The U.S. Experience with Managed Care and Managed Competition,” Boston Federal Reserve 2005 Economic Conference.
- Kaiser Family Foundation, Summary of New Health Reform Law.
- Peter Diamond, “Organizing the Health Insurance Market,” *Econometrica*, 60 (1992), pp. 1233-1254.
- OPTIONAL READING: Martin Feldstein and Jonathan Gruber, “A Major Risk Approach to Health Insurance Reform,” *Tax Policy and the Economy*, 9 (2005), pp. 103-130.

- OPTIONAL READING: David Cutler, “Equality, Efficiency, and Market Fundamentals: The Dynamics of International Medical-Care Reform,” *Journal of Economic Literature*, September 2002, pp. 881-906.

Session 15: March 26th, 2012

- Levy, Santiago, “Good Intentions, Bad Outcomes: Social Policy, Informality and Economic Growth in Mexico”, Brookings Institution Press, May 13, 2008, Chapter 6, pp. 134-165. [Course Packet].
- Arias, Javier; Azuara, Oliver; Bernal, Pedro; Heckman, James J.; and Villarreal, Cajeme; “Policies To Promote Growth and Economic Efficiency in Mexico”, NBER Working Paper No. 16554 November 2010.
- OPTIONAL READING: Levy, Santiago, “Social Welfare and Employment: The Case of Mexico”, Inter-American Development Bank Presentation at the Forum on “Trabajo y Equidad en un Mundo Global”, Santiago, Chile, 2008.
- OPTIONAL READING: Peel, Quentin, “Merkel warns on cost of welfare”, *Financial Times*, December 16th, 2012.

Session 16: March 28th, 2012

- James Heckman, “Skill Formation and the Economics of Investing in Disadvantaged Children,” *Science*, v.312, June 2006, pp. 1900-1902.
- Eric Hanushek, “The Failure of Input-Based Schooling Policies,” *Economic Journal* (Feb 2003) 113, pp. F64-F98.
- OPTIONAL READING: James Heckman and Dimitriy Masterov, “The Productivity Argument for Investing in Young Children,” *Review of Agricultural Economics*, 29:3, 2007
- OPTIONAL READING: Alan Krueger, “Inequality, Too Much of a Good Thing,” in *Inequality in America: What Role for Human Capital Policies* (Benjamin Friedman, ed.), MIT Press, 2004, pp. 1-76.

Session 17: April 2nd, 2012

- Douglas O. Staiger and Jonah E. Rockoff, “Searching for Effective Teachers with Imperfect Information,” *Journal of Economic Perspectives*, Summer 2010.
- Banerjee, Abhijit and Duflo, Esther; “Top of the Class” Chapter 4 of “Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty” , Public Affairs, 2001, pp. 71-102. [Course Packet].
- OPTIONAL READING: Banerjee, Abhijit; Chattopadhyay, Raghavendra; Duflo, Esther; Keniston, Daniel and Singh, Nina; “Can Institutions be Reformed from Within? Evidence from a Randomized Experiment with the Rajasthan Police” NBER Working Paper No. 17912 March 2012.
- OPTIONAL READING: Fernald, Lia; Gartner, Paul. Neufeld, Lynnete; “10-year effect of Oportunidades, Mexico's conditional cash transfer programme, on child growth, cognition, language, and behaviour: a longitudinal follow-up study”, *The Lancet*, Volume 374, Issue 9706, Pages 1997 - 2005, 12 December 2009.

Session 18: April 4th, 2012

- George Borjas, “Reframing the Immigration Debate,” chapter 1 in “Heaven’s Door” (Princeton University Press), 1999, 3-18. [Course Packet].
- George Borjas, “The Economic Benefits from Immigration,” chapter 5 in “Heaven’s Door” (Princeton, Princeton University Press), 1999, 87-104. [Course Packet].
- Roberts, Dexter; “China May Finally Let Its People Move More Freely”, BusinessWeek, March 15th, 2012.
- OPTIONAL READING: David Card, “Is the New Immigration Really So Bad?,” Economic Journal, November 2005, F300-F323.
- OPTIONAL READING: Andrew F. Haughwout and Robert P. Inman. Fiscal policies in open cities with firms and households. Regional Science and Urban Economics, 31:147–180, 2001.
- OPTIONAL READING: Dennis Epple and Thomas Romer. Mobility and redistribution. Journal of Political Economy, 99(4):828–858, August 1991.

Session 19: April 9th, 2012

- Douglas Irwin, “Free Trade Under Fire” (Princeton University Press, 3rd edition, 2009), chapter 2. [Course Packet].
- Virginia Postrel, “What Happened When Two Countries Liberalized Trade? Pain, Then Gain” New York Times January 27, 2005.
- OPTIONAL READING: Paul Krugman, “The Trouble with Trade,” New York Times, December 28, 2007.
- OPTIONAL READING: Alan Blinder, “Free Trade’s Great, but Offshoring Rattles Me,” Washington Post, May 6, 2007.