

Readings in Market Imperfections and Rationales for Government Intervention

Spring 2014

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Room TBD
Mondays 2-4pm

Overview

This course discusses basic questions in economics like: When can markets be inefficient? When do such inefficiencies generate a rationale for the government to intervene? By what methods should the government intervene?

We begin the course by reviewing the basic welfare theorems that suggest markets should work well. The first welfare theorem suggests market outcomes are always Pareto efficient – there are no policies the government can do to make everyone better off relative to what the market allocation provides. The second welfare theorem suggests that any desired Pareto efficient outcome can be achieved by the government through an appropriate set of lump-sum transfers. Taken together, these two theorems have been traditionally hailed as rationales for the absence of government intervention in markets.

Yet, there are many conditions under which the assumptions underlying these fundamental theorems fail. We discuss the workings of markets and rationales for government intervention a wide range of settings, including equality of opportunity and intergenerational mobility in the U.S., insurance markets and the Affordable Care Act, the rise in top 1% inequality and implications for taxation of labor and capital, patent protection and innovation, high frequency trading, and government bailouts during the financial crisis. The goal is to generate principled discussion about the potential market failures operating in these settings, to critique the current methods of government intervention, and to discuss the pros and cons of alternative policies.

Requirements

The main requirement for the course is a 20-25 page research paper that analyzes a particular government policy and discusses its theoretical and empirical rationale (or lack of rationale). All research topics need to be approved by the professor. Research papers are generally expected to have a strong data analysis component, but students seeking to write a purely theoretical paper can do so with professor approval.

Students will submit a 500-word research proposal due on March 2. Students will meet with the professor during the subsequent week to discuss their proposal. A

longer 5-7 page report outlining the topic, argument for government intervention, and proposed data analysis will be due on March 30. On April 13, students will submit a 1-page memo to me outlining their progress. On April 20 and 27 students will provide a 15 minute presentation of their work during class. Finally, the research paper is due on May 4.

In addition to the research paper, students will be expected to read the papers each week prior to coming to class and provide a 2-page response to the readings discussing the rationale for government intervention in the context to be discussed. The responses are due by 8pm on Sunday evening prior to class. Students will be graded on the best 6 of their reviews.

Late Policy

Students are expected to provide assignments on time. If assignments are turned in late, they will lose 1/3 of a letter grade per 24 hours late. Exceptions are given in the case of medical or personal emergencies. I respect your privacy in these matters, but I ask that you provide a certification of the emergency from a doctor or resident dean.

Collaboration Policy

Discussion and the exchange of ideas are essential to academic work. For assignments in this course, you are encouraged to consult with your classmates on the choice of paper topics and to share sources. You may find it useful to discuss our chosen topic with your peers, particularly if you are working on a similar topic as a classmate. However, you should ensure that any written work you submit for evaluation is the result of your own research and writing and that it reflects your own approach to the topic. You must also adhere to standard citation practices in this discipline and properly cite any books, articles, websites, lectures, etc. that have helped you with your work. If you received any help with your writing (*e.g.*, feedback on drafts), you must also acknowledge this assistance.

Assignment list

- Weekly: 2-page response to readings
- March 2: 500 word proposal due
- March 30: 5-7 page report due that outlines topic, argument for government intervention, and proposed data analysis
- April 13: 1-page progress report due
- April 20/27: 15 minute discussion of project in class
- May 4: Research paper due

Grading

The course grade will be determined as follows:

- Class participation and weekly responses (25%)

- 500 word proposal (10%)
- 5-7 page report (5%)
- 1-page progress report (5%)
- In-class discussion of project (15%)
- Final Research paper (40%)

Schedule

Week 1 (January 26) Introduction, Welfare Theorems, and Coase Theorem

Week 2 (Feb 2) Redistribution and taxation

Week 3 (Feb 9) Competition and Monopoly: Merger Regulation

Week 4 (No meeting – Presidents day)

Week 5 (Feb 23) Minimum wages and monopsony

Week 6 (March 2) Environmental Regulation and Externalities

Week 7 (March 9) Investment in children: Intergenerational Mobility and Equality of Opportunity

[No meeting March 16 – spring break]

Week 8 (March 23): Innovation and patent protection

Week 9 (March 30): Insurance markets and the Affordable Care Act (I)

Week 10 (April 6): Insurance markets and the Affordable Care Act (II)

Week 11 (April 13): Financial regulation: high frequency trading and TARP

Week 12 (April 20): In class presentations

Week 13 (April 27): In class presentations