

Economics 2450B: Public Economics
Dept. of Economics, Harvard University
Spring 2017

Professor Nathaniel Hendren
Teaching Fellow: Andy Garin

Course Description

This course follows 2450A. The course will focus on a range of topics in public economics including welfare estimation of government policies, public goods, education policies, place-based policies, insurance markets, and the optimal provision of social insurance.

Course Requirements

There are three sets of requirements for this course. First, the course will involve completion of 4 problem sets covering. Second, you will be asked to conduct a replication exercise of a paper related to the course. All papers chosen must be approved by Prof. Hendren. You are encouraged to choose an empirical paper, but those interested in pure theory papers are free to discuss this option with Prof. Hendren. Finally, there will be a final exam.

The lecture plan for the course is below, along with a reading list:

Week 1 (Jan 24): Basics of Welfare Estimation and Cost-Benefit Analysis

Week 2 (Jan 31): Policies with Distributional Incidence and Relation to Optimal Income Taxation

Week 3 (Feb 7): Commodities and Public Goods with Redistributive Concerns

Week 4 (Feb 14): Education

Week 5 (Feb 21): Place and Place-based policies

Week 6 (Feb 28): Neighborhoods and Intergenerational Mobility

Week 7 (Mar 7): Adverse Selection and Insurance Market Failures

Week 8 (Mar 21): Optimal Social Insurance: UI

Week 9 (Mar 28): Welfare analysis of Health Insurance

Week 10 (April 4): Health Insurance and Children

Week 11 (April 11): Disability Insurance and Retirement Savings

Week 12 (April 18): Firms and Corporate Taxation

Week 13 (April 25): TBD

Reading List

Topic 1: Basics of Welfare Estimation

Hendren (2016), "[The Policy Elasticity](#)", *Tax Policy and the Economy*.

[Saez, Slemrod, and Giertz \(2012\)](#), "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review", *Journal of Economic Literature*, 50(1)

Hotz, V.J., Mullin, C. and Scholz, J.K., 2003. "[The Earned Income Tax Credit](#)"

Chetty, R., Friedman, J.N. and Saez, E., 2013. [Using Differences in Knowledge across Neighborhoods to Uncover the Impacts of the EITC on Earnings](#). *The American Economic Review*, 103(7), pp.2683-2721.

[Hoynes, H.W. and Schanzenbach, D.W., 2012](#). [Work incentives and the food stamp program](#). *Journal of Public Economics*, 96(1), pp.151-162.

Bloom, H.S., Orr, L.L., Bell, S.H., Cave, G., Doolittle, F., Lin, W. and Bos, J.M., 1997. [The benefits and costs of JTPA Title II-A programs: Key findings from the National Job Training Partnership Act study](#). *Journal of human resources*, pp.549-576.

Jacob, B.A. and Ludwig, J., 2012. [The effects of housing assistance on labor supply: Evidence from a voucher lottery](#). *The American Economic Review*, 102(1), pp.272-304.

Goodman-Bacon, A., 2016. [The Long-Run Effects of Childhood Insurance Coverage: Medicaid Implementation, Adult Health, and Labor Market Outcomes](#) (No. w22899). National Bureau of Economic Research.

Additional Readings:

Hicks, J. R. (1939) "The Foundations of Welfare Economics", *Economic Journal*, 49

Kaldor, N. (1939) "Welfare Propositions of Economics and Interpersonal Comparisons of Utility", *Economic Journal*, 49

Harberger, A. (1964) "The Measurement of Waste", *American Economic Review*, 54

Ballard, C. L. and D. Fullerton (1992), "Distortionary Taxes and the Provision of Public Goods", *Journal of Economic Perspectives*

Feldstein, M. (1999). "Tax Avoidance and the Deadweight Loss of the Income Tax", *The Review of Economics and Statistics*, 81(4)

Kleven, H. J. and C. T. Kreiner (2006). "The Marginal Cost of Public Funds: Hours of Work Versus Labor Force Participation", *Journal of Public Economics*

Dahlby, B. (2008) *The Marginal Cost of Public Funds*, MIT Press

[Saez, E. and Stantcheva, S., 2016](#). Generalized social marginal welfare weights for optimal tax theory. *The American Economic Review*, 106(1), pp.24-45.

Topic 2: Accounting for Redistribution

Bourguignon, F. and Spadaro, A., 2012. Tax–benefit revealed social preferences. *The Journal of Economic Inequality*, 10(1), pp.75-108.

Hendren, N. *The Inequality Deflator: Interpersonal Comparisons without a Social Welfare Function*. NBER Working Paper #20351

Mirrlees, James A. "Optimal tax theory: A synthesis." *Journal of Public Economics* 6.4 (1976): 327-358.

Best, Michael, and Henrik Kleven. *Optimal income taxation with career effects of work effort*. Working paper, 2013. [see appendix comparing calculus of variations and hamiltonian approach”

Diamond, Peter A., and Emmanuel Saez. "The case for a progressive tax: from basic research to policy recommendations." (2011). *Journal of Economic Perspectives*

Werning, I. (2007). “Pareto efficient taxation”, MIT Manuscript

Topic 3: Commodities and Public Goods with Redistributive Concerns

Kaplow, L., 2004. On the (ir) relevance of distribution and labor supply distortion to government policy. *The Journal of Economic Perspectives*, 18(4), pp.159-175.

Kaplow, Louis. "Public goods and the distribution of income." *European Economic Review* 50.7 (2006): 1627-1660.

Kaplow, Louis. "On the undesirability of commodity taxation even when income taxation is not optimal." *Journal of Public Economics* 90.6 (2006): 1235-1250.

Diamond, P. and J. Mirrlees (1971). “Optimal Taxation and Public Production I: Production Efficiency”, *American Economic Review*, 61(1)

Atkinson, Anthony Barnes, and Joseph E. Stiglitz. "The design of tax structure: direct versus indirect taxation." *Journal of public economics* 6.1 (1976): 55-75.

Saez, Emmanuel. "The desirability of commodity taxation under non-linear income taxation and heterogeneous tastes." *Journal of Public Economics* 83.2 (2002): 217-230.

Hylland, A. and Zeckhauser, R., 1979. The efficient allocation of individuals to positions. *Journal of Political economy*, 87(2), pp.293-314.

Topic 4: Education

Lans Bovenberg, A., and Bas Jacobs. "Redistribution and education subsidies are Siamese twins." *Journal of Public Economics* 89.11 (2005).

Stantcheva, Stefanie. "Optimal Taxation and Human Capital Policies Over the Lifecycle." (2012).

Chetty, Raj, et al. "How does your kindergarten classroom affect your earnings? Evidence from Project STAR." *The Quarterly Journal of Economics* 126.4 (2011): 1593-1660.

Chetty, R., Friedman, J.N. and Rockoff, J.E., 2014. Measuring the impacts of teachers I: Evaluating bias in teacher value-added estimates. *The American Economic Review*, 104(9), pp.2593-2632.

Chetty, R., Friedman, J.N. and Rockoff, J.E., 2014. Measuring the impacts of teachers II: Teacher value-added and student outcomes in adulthood. *The American Economic Review*, 104(9), pp.2633-2679.

Hoxby, Caroline, and Christopher Avery. "The missing" one-offs": The hidden supply of high-achieving, low-income students." *Brookings papers on economic activity* 2013.1 (2013): 1-65.

Kline, P. and Walters, C.R., 2016. Evaluating public programs with close substitutes: The case of Head Start. *The Quarterly Journal of Economics*, 131(4), pp.1795-1848.

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

Dynarski, Susan M. "Does Aid Matter? Measuring the Effect of Student Aid on College Attendance and Completion." *The American Economic Review* 93.1 (2003): 279-288.

Becker, Gary S., and Nigel Tomes. "An equilibrium theory of the distribution of income and intergenerational mobility." *Journal of political Economy* 87.6 (1979): 1153-1189.

Angrist, Joshua D., and Victor Lavy. "Using Maimonides' rule to estimate the effect of class size on scholastic achievement." *The Quarterly Journal of Economics* 114.2 (1999): 533-575.

Fredriksson, Peter, Björn Öckert, and Hessel Oosterbeek. "Long-term effects of class size." *The Quarterly Journal of Economics* 128.1 (2013): 249-285.

Kane, Thomas J., and Douglas O. Staiger. *Estimating teacher impacts on student achievement: An experimental evaluation*. No. w14607. National Bureau of Economic Research, 2008.

Rothstein, Jesse. "Teacher quality in educational production: Tracking, decay, and student achievement." *The Quarterly Journal of Economics* 125.1 (2010): 175-214.

Hoxby, Caroline. *Peer effects in the classroom: Learning from gender and race variation*. No. w7867. National Bureau of Economic Research, 2000.

Angrist, Joshua, et al. *Leveraging lotteries for school value-added: Testing and estimation*. No. w21748. National Bureau of Economic Research, 2015.

Topic 5: Neighborhoods and Intergenerational Mobility

Part 1: Urban Economics and Place Based Policy

Autor, David H., Christopher J. Palmer, and Parag A. Pathak. "Housing market spillovers: Evidence from the end of rent control in Cambridge, Massachusetts." *Journal of Political Economy* 122.3 (2014): 661-717.

Boustan, Leah Platt. "Was postwar suburbanization "white flight"? Evidence from the black migration." *The Quarterly Journal of Economics* 125.1 (2010): 417-443.

Card, David, Alexandre Mas, and Jesse Rothstein. "Tipping and the Dynamics of Segregation." *The Quarterly Journal of Economics* 123.1 (2008): 177-218.

Busso, Matias, Jesse Gregory, and Patrick Kline. "Assessing the incidence and efficiency of a prominent place based policy." *The American Economic Review* 103.2 (2013): 897-947.

Diamond, Rebecca. "The determinants and welfare implications of US workers' diverging location choices by skill: 1980–2000." *The American Economic Review* 106.3 (2016): 479-524.

Kline, Patrick, and Enrico Moretti. "People, places, and public policy: Some simple welfare economics of local economic development programs." *Annu. Rev. Econ.* 6.1 (2014): 629-662.

Moretti, Enrico. "Estimating the social return to higher education: evidence from longitudinal and repeated cross-sectional data." *Journal of econometrics* 121.1 (2004): 175-212.

Roback, Jennifer. "Wages, rents, and the quality of life." *Journal of political economy* 90.6 (1982): 1257-1278.

Feldstein, Martin, and Marian Vaillant Wrobel. "Can state taxes redistribute income?." *Journal of Public Economics* 68.3 (1998): 369-396.

Serrato, Juan Carlos Suárez, and Owen Zidar. "Who benefits from state corporate tax cuts? A local labor markets approach with heterogeneous firms." *The American Economic Review* 106.9 (2016): 2582-2624.

Akcigit, Ufuk, Salomé Baslandze, and Stefanie Stantcheva. "Taxation and the international mobility of inventors." *The American Economic Review* 106.10 (2016): 2930-2981.

Oates, Wallace E. "The effects of property taxes and local public spending on property values: An empirical study of tax capitalization and the Tiebout hypothesis." *Journal of political economy* 77.6 (1969): 957-971.

Epple, Dennis, and Thomas Romer. "Mobility and redistribution." *Journal of Political economy* 99.4 (1991): 828-858.

Hoxby, Caroline M. "Does competition among public schools benefit students and taxpayers? Reply." *The American Economic Review* 97.5 (2007): 2038-2055.

Besley, Timothy, and Stephen Coate. "Centralized versus decentralized provision of local public goods: a political economy approach." *Journal of public economics* 87.12 (2003): 2611-2637.

Topic 6: Adverse Selection and Insurance Market Failures

Akerlof, George A. "The Market For "Lemons": Quality, Uncertainty And The market Mechanism." *The Quarterly Journal Of Economics* 84.3 (1970): 488-500.

Rothschild, Michael, and Joseph Stiglitz. "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information." *The Quarterly Journal of Economics* 90.4 (1976): 629-649.

Riley, John G. "Informational equilibrium." *Econometrica: Journal of the Econometric Society* (1979): 331-359.

Wilson, Charles. "A model of insurance markets with incomplete information." *Journal of Economic Theory* 16.2 (1977): 167-207.

Miyazaki, Hajime. "The rat race and internal labor markets." *The Bell Journal of Economics* (1977): 394-418.

Netzer, Nick, and Florian Scheuer. *A game theoretic foundation of competitive equilibria with adverse selection*. No. w18471. National Bureau of Economic Research, 2012.

Hendren, Nathaniel. "Unraveling versus Unraveling: A Memo on Competitive Equilibriums and Trade in Insurance Markets."

Chiappori, Pierre-André, and Bernard Salanie. "Testing for asymmetric information in insurance markets." *Journal of political Economy* 108.1 (2000): 56-78.

Finkelstein, Amy, and James Poterba. "Adverse selection in insurance markets: Policyholder evidence from the UK annuity market." *Journal of Political Economy* 112.1 (2004): 183-208.

Finkelstein, Amy, and James Poterba. *Testing for Adverse Selection with "Unused Observables"*. National Bureau of Economic Research, 2006.

Finkelstein, Amy, and Kathleen McGarry. "Multiple dimensions of private information: evidence from the long-term care insurance market." *American Economic Review* 96.4 (2006): 938-958.

Cutler, David M., Amy Finkelstein, and Kathleen McGarry. *Preference heterogeneity and insurance markets: Explaining a puzzle of insurance*. No. w13746. National Bureau of Economic Research, 2008.

Fang, Hanming, Michael P. Keane, and Dan Silverman. *Sources of advantageous selection: Evidence from the Medigap insurance market*. No. w12289. National Bureau of Economic Research, 2006.

Hendren, Nathaniel. "Private information and insurance rejections." *Econometrica* 81.5 (2013): 1713-1762.

Handel, Benjamin R. "Adverse selection and inertia in health insurance markets: When nudging hurts." *The American Economic Review* 103.7 (2013): 2643-2682.

Topic 7: Optimal Social Insurance: UI

Chetty, Raj, and Amy Finkelstein. *Social Insurance: Connecting Theory to Data*. No. w18433. National Bureau of Economic Research, 2012.

Baily, Martin Neil. "Some aspects of optimal unemployment insurance." *Journal of Public Economics* 10.3 (1978): 379-402.

Chetty, Raj. "A general formula for the optimal level of social insurance." *Journal of Public Economics* 90.10 (2006): 1879-1901.

Aguiar, Mark, and Erik Hurst. "Consumption versus expenditure." *Journal of political economy* 113.5 (2005): 919-948.

Chetty, Raj. "Moral Hazard vs. Liquidity and Optimal Unemployment Insurance." *Journal of Political Economy* (2008).

Shimer, Robert, and Ivan Werning. "Reservation wages and unemployment insurance." *The Quarterly Journal of Economics* 122.3 (2007): 1145-1185.

Topic 9: Welfare analysis of Health Insurance

Einav, Liran, et al. *Selection on moral hazard in health insurance*. No. w16969. National Bureau of Economic Research, 2011.

Golosov, Mikhail, and Aleh Tsyvinski. "Designing optimal disability insurance: A case for asset testing." *Journal of Political Economy* 114.2 (2006): 257-279.

Hendel, Igal, and Alessandro Lizzeri. "The role of commitment in dynamic contracts: Evidence from life insurance." *The Quarterly Journal of Economics* 118.1 (2003): 299-328.

Handel, Benjamin R., Igal Hendel, and Michael D. Whinston. *Equilibria in Health Exchanges: Adverse Selection vs. Reclassification Risk*. No. w19399. National Bureau of Economic Research, 2013.

Topic 10: Health Insurance and Children

TBD

Topic 11: Firms and Corporate Taxation

TBD

