API-102 D: ECONOMIC ANALYSIS OF PUBLIC POLICY

Course Overview

This course builds on API-101 to develop microeconomic tools of analysis for policy problems through various policy applications. The course is broadly focused on evaluating the rationale for government intervention in the economy and evaluating the efficiency, incentive, and distributional effects of government policies. The D section focuses on social policy and the design of optimal government programs, with applications including poverty alleviation, health, education, unemployment, and taxation.

Prerequisites: API-101 or equivalent.

Class Time: Tuesdays and Thursdays 8:40 – 10:00 AM; L140

Review Section: Fridays; 11:40-1; L130

Teaching Staff

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REQUIREMENTS

There will be a total of six written assignments (problem sets), a policy memo, midterm examination and a final examination. The final course grade will be weighted as follows: written assignments (20%), policy memo (15%), midterm exam (25%), final exam (40%). Class attendance and participation will also be taken into account in the determination of the final grades.

Assignments will be posted one week before the due date and will be graded on a check plus, check, check minus scale to provide feedback only. Each completed assignment will count as a 4 percent credit toward the final grade. I strongly encourage students to complete all the assignments, since I believe the assignments are the best way to understand the course material and the best preparation for the midterm and final exam. However, this means that one allowance is made for unusual circumstances which may prevent a student from completing an assignment. Late assignments will therefore not be accepted.

Students are encouraged to work on assignments in small groups of no more than four students. Assignments must be written up separately and must include the names of the other group members.

The policy memo is a 5 page written assignment on a topic of current public policy relevance (details TBA). The memo will be due in class on April 17. Late memos will be marked down by one letter grade per day.

The midterm examination will be held in class on Tuesday, March 4. The final exam will be on Wednesday, May 7, from 9-12 AM.

Note: Absence from the midterm is permitted only under exceptional circumstances, such as a medical emergency with appropriate documentation. In such cases, the other components of your grade will be reweighted (there will be no make-up midterm).

READINGS

All of the readings are available online. Readings are linked through the course website. There is no required textbook for this course, but much of the material is covered in the following book. You may find it useful as an additional source for reference and review. Appropriate sections of the textbook are noted in the readings list below in square brackets.


Readings should be completed prior to the class for which they are assigned.
### Overview of Lectures

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COURSE OUTLINE AND READINGS

1. Overview and Equity Efficiency Tradeoffs (Jan 28)


[Gruber, ch 1 “Why Study Public Finance?”]
[Gruber, ch 2 “Theoretical Tools of Public Finance”]

2. Tax Incidence (Jan 30)


[Gruber, chapter 20, “Tax Inefficiencies and Their Implications for Optimal Taxation”]

3. Taxes and Labor Supply (Feb 4)


[Gruber, ch 21 “Taxes on Labor Supply.”]

4. Inequality I: Facts about Inequality (Feb 6)


[Not necessary to read the appendices]
5. Inequality II: Causes and Consequences (Feb 11)


[Please watch up to Q&A; remainder optional]


6. Transfer Programs I: Cash Welfare and In-Kind Benefits (Feb 13)


[Gruber, ch 17 “Income Distribution and Welfare Programs”]

7. Transfer Programs II: EITC (Feb 18)


[Please read through and including Section 4 (ending with Figure 8)]

8. Macroeconomic Effects of Fiscal Policy: Fiscal Stimulus and Multipliers (Feb 20)


Luttmer, E. F. P. Statement to the Senate, Senate Special Committee on Aging. Social

[Gruber, ch 13 “Social Security.”]

10. Social Security II: Social Security Reform (Feb 27)


11. Midterm Examination (Mar 4)

12. Health Insurance I: Adverse Selection in Insurance Markets (Mar 6)


[Gruber, ch 15 “Health Insurance I: Health Economics and Private Health Insurance”]
[Gruber, ch 16 “Health Insurance II: Medicare and Medicaid”]

13. Health Insurance II: Causal Effects of Insurance (Mar 11)


15. Unemployment Insurance (Mar 25)

[Please read up through first two paragraphs on p. 14; remainder optional]


[Gruber, ch 14 “Unemployment Insurance, Disability Insurance, and Workers’ Compensation.”]

16. Informal Insurance (Mar 27)


17. State and Local Government: Tiebout Model and Intergovernmental Grants (Apr 1)


[Gruber, ch 11 “Public Goods in Action: Education”]

18. State and Local Government II: School Finance (Apr 3)


19. Cost Benefit Analysis I: Discounting, NPV, and Alternatives (Apr 8)


[Gruber, ch 8 “Cost-Benefit Analysis”]

20. Cost Benefit Analysis II: Valuing Costs and Benefits (Apr 10)


22. Summary and Review (Apr 17)