

ECON 520 Public Economics I
Spring 2016
Instructor: Dr. Anita Alves Pena

Office: C312 Clark, Phone: 970-491-0821, Fax: 970-491-2925, Email: anita.pena@colostate.edu
Class Meetings: TR 12:30pm-1:45pm, Molecular Radiological Biosci (!?)
Office Hours: Tuesdays and Thursdays 10:45-11:30am, starting Week 2 (and when you see me)
Textbook: J. Hindriks and G.D. Myles: Intermediate Public Economics, second edition, 2013 (H&M).
Course website: login at <http://canvas.colostate.edu> (will be up by Week 2)

Intended Learning Outcomes of the Public Economics Field Sequence:

Public economics is an area of applied microeconomics that is concerned with government behavior. The field sequence is concerned with analysis of the welfare foundations of public taxation and expenditure, including economic policy analysis especially cost-benefit analysis (CBA). On the tax side, topics include optimal tax theory, incidence (equity and distribution of tax burden), and efficiency (effects of taxes on resource allocation). On the expenditure side, topics include theory of public expenditure, state and local public goods, redistribution and welfare, education, social insurance, and health care policy. Topics are distributed across ECON 520 and 720 depending on instructor and student interest. In both, we will review classic and recent literature in public economics, and expand the analytics of government tax policy and public expenditure to the beginnings of independent research.

Prerequisites:

First-year graduate microeconomics and econometrics, or equivalent. I will assume that you are already familiar with at least first-semester level theory and tools from these sequences and therefore can read, understand, and discuss academic literature within economics.

Contact Hours and Expectations for Work Outside of Instructional Time:

There will generally be two to four assigned required readings (journal articles) per week which may take about one to two hours (or longer) each depending on your particular background. This is in addition to book chapter readings which provide overview and in addition to preparation of presentations and written assignments. The quality of class discussions depends on your preparation *whether or not you are presenter* so please keep this in mind even if nothing is physically due. This is a three credit course and therefore there is a six hour per week expectation for homework and other work outside of instructional time (equivalent to the federal credit hour definition of two hours of outside work for each contact hour).

Other Expectations:

That you will be respectful of me and your classmates and will take the course seriously.

Department's Statement on Copyright:

Please do not share material from this course in online, print or other media. Course material is the property of the instructor who developed the course. Materials authored by third parties and used in the course are also subject to copyright protections. Posting course materials on external sites (commercial or not) violates both copyright law & the CSU Student Conduct Code. Students who share course content without the instructor's express permission, including with online sites that post materials to sell to other students, could face disciplinary or legal action.

Academic Integrity:

This course will adhere to the CSU Academic Integrity Policy as found on the Student Responsibilities page of the CSU General Catalog and in the Student Conduct Code. At a minimum, violations will result in a grading penalty in this course and a report to the Office of Conflict Resolution and Student Conduct Services.

Grading:

Class Participation (15%)

Attendance, participation, and preparation (e.g., reading and listening to YouTube lectures as assigned) for class is expected. Note that a relatively large percentage of your final grade therefore is in this category since the quality of class discussion really does depend on your comments, reflections, and questions.

Literature Presentations (20%)

Each of you will present two papers to the class from the syllabus below and lead subsequent discussion. The presentation itself should not exceed 15 minutes, but the discussion afterwards that you lead may be longer. Presentations should be of similar format to how papers are presented in an academic seminar. This means that you should have presentation slides. Preparing these presentations will give you a chance to polish your academic presentation skills and will give you detailed understanding of the papers you present. A sign-up sheet and details will be available in class early in the semester.

Mock Referee Report (15%)

You will write a mock referee report based on a new working paper (not yet published in a journal) in public economics. Reports should be two or three single-spaced typewritten pages, and I will provide the paper to review. Reports should briefly summarize and then elaborately critique the paper (i.e. is the question well motivated, is appropriate data used, are identifying assumptions reasonable, is the model appropriate for the question, etc.) Please note the due date (in class) for this and other assignments on the schedule below.

Alain de Janvry has a helpful guide as to how to approach referee reports:

<http://are.berkeley.edu/courses/ARE251/2004/assignments/RRGuidelines.pdf> I will provide other details in class.

Literature Review and Research Proposal (30%)

You will write an original literature review and research proposal (not submitted in any other class) corresponding to a topic related to public economics (broadly-defined) which is of interest to you. The paper should be 10-15 pages in length (double-spaced, one inch margins) and cover at least five journal articles or working papers. At least three papers (if not more) should not appear on this syllabus. You should critically review these papers and relate them to a research question of interest that you could pursue in the longer run. It is important to state your research question clearly, to motivate why it is of economic interest and how it relates to existing literature, and to provide *detail* as to how you would approach your question (e.g., what the research design would look like, what data would be used, what empirical techniques would be implemented, etc.). Your grade will include an allowance for the preliminary topic statement that you will provide early in the term as assigned below in addition to the final product.

Presentation of Literature Review/Research Proposal (10%)

You will present your research proposal topic and literature review to the class near the end of the term. Again, you should have presentation slides. You should aim to motivate class discussion in your presentation. I envision that well-thought out and presented topics may lead to dissertation chapters or masters theses later! A sign-up sheet and further details will be available in class later in the semester.

Critique of Classmate's Proposal (10%)

You will write a report in the style of a "referee report" (as practiced earlier in the class) focusing on another student's written research proposal. I will assign and distribute the pairings for this exercise.

**Note that you may have a presentation on the same date that something else is due. In these cases, please plan ahead.*

Syllabus and Reading List:

This schedule is subject to change and will be revised later in the semester if necessary. Most papers on the reading list will be available on Canvas. Please let me know if you are unable to locate a paper, and I will make it available. You are expected to complete the following reading whether or not we focus on specifics in class. Additional (optional) suggested readings are provided at the end of each chapter in H&M as these lists may be useful for your own research later on.

Introduction and Review of Tools for Welfare Economics, Week of January 19

- Good chapters for *review* for background this week and next are H&M Chapters 1-2, 4-5, 13-14
- Arrow, K. J. (1950), "A Difficulty in the Concept of Social Welfare," *The Journal of Political Economy*, 58(4): 328-346.
- Rawls, J. (1974), "Concepts of Distributional Equity: Some Reasons for the Maximin Criterion," *American Economic Review*, 64(2): 141-146.
- Hines, J. (1999), "Three Sides of the Harberger Triangle," *Journal of Economic Perspectives*, 13(2): 167-186.
- Listen to/watch Raj Chetty's YouTube Topic 1: Introduction (<https://www.youtube.com/playlist?list=PL2SOU6wwxB0v3c46v2ptuDKIHmXHRAMEU>) Also linked from: <http://www.rajchetty.com/index.php/lecture-videos>

Public Goods, Weeks of January 26 and February 2

- H&M Chapter 6
- Samuelson, P. (1954), "The Pure Theory of Public Expenditures," *Review of Economics and Statistics*, 36(4): 387-389. We will simultaneously discuss Samuelson's 1955 and 1958 articles:
 - Samuelson, P. (1955), "Diagrammatic Exposition of a Theory of Public Expenditure," *Review of Economics and Statistics*, 37(4): 350-356.
 - Samuelson, P. (1958), "Aspects of Public Expenditure Theories," *Review of Economics and Statistics*, 40(4): 332-338.
- Bergstrom, T., L. Blume and H. Varian (1986), "On the Private Provision of Public Goods," *Journal of Public Economics*, 29: 25-49.
- Andreoni, J. (1988), "Privately Provided Public Goods in a Large Economy: The Limits of Altruism" *Journal of Public Economics*, 35: 57-73.
- List, J. A. (2011). The market for charitable giving. *The Journal of Economic Perspectives*, 157-180.
- Listen to Chetty lectures (Topic 7, parts 1-3)

Clubs, Tax Capitalization, and Local Public Goods, Week of February 9

- H&M Chapter 7
- Tiebout, C. M. (1956), "A Pure Theory of Local Expenditures," *Journal of Political Economy*, 64(5): 416-424.
- Buchanan, J. M. (1965), "An Economic Theory of Clubs," *Economica*, 32(125): 1-14.
- Oates, W. E. (1969), "The Effects of Property Taxes and Local Public Spending on Property Values: An Empirical Study of Tax Capitalization and the Tiebout Hypothesis" *The Journal of Political Economy*, 77(6): 957-971.
- Linden, L. L. and Rockoff, J. E. (2008), "Estimates of the Impact of Crime Risk on Property Values from Megan's Laws," *American Economic Review*, 93(3): 1103-1127.

TUESDAY, FEBRUARY 16: referee report due, please provide print copy in class

Fiscal Federalism and Intergovernmental Relations, Week of February 16

- H&M Chapters 19-20

- Fisher, R. (1982), "Income and Grant Effects on Local Expenditures: The Flypaper Effect and Other Difficulties," *Journal of Urban Economics*, 12: 324-345.
- Oates, W. E. and R. M. Schwab (1988), "Economic Competition Among Jurisdictions: Efficiency-Enhancing or Distortion-Inducing?" *Journal of Public Economics*, 35: 333-354.
- Holtz-Eakin, D. (1988), "The Line-Item Veto and Public Sector Budgets: Evidence from the States," *Journal of Public Economics*, 35: 269-292.
- Knight, B. (2002), "Endogenous federal grants and crowd-out of state government spending: Theory and evidence from the federal highway aid program," *American Economic Review*, 71-92.

Education Policy, Weeks of February 23 and March 1

- Feldstein, M. S. (1975), "Wealth Neutrality and Local Choice in Public Education," *American Economic Review*, 65(1): 75-89.
- Fernandez, R. and R. Rogerson (1996), "Income Distribution, Communities and the Quality of Public Education," *Quarterly Journal of Economics*, 111(1): 135-164.
- Epple, D. and R. Romano (1998), "Competition between Private and Public Schools, Vouchers, and Peer-Group Effects," *The American Economic Review*, 88(1): 33-62.
- Hoxby, C. M. (2000), "The Effects of Class Size on Student Achievement: New Evidence from Population Variation," *The Quarterly Journal of Economics*, 115(4): 1239-1285.
- Weimer, D. L. and M. J. Wolkoff (2001), "School Performance and Housing Values: Using Non-contiguous District and Incorporation Boundaries to Identify School Effects," *National Tax Journal*, 56(2): 231-253.
- Epple, D., D. Figlio and R. Romano (2004), "Competition between Private and Public Schools: Testing Stratification and Pricing Predictions," *Journal of Public Economics*, 88: 1215-1245.

THURSDAY, MARCH 3: deadline to submit a one-page description of your literature review/research proposal topic for approval, should include research question, economic motivation, and a list of papers that will be reviewed, please provide print copy in class

Academic Debates: Examples from Education Policy, Week of March 8

- Hoxby, C. M. (2000), "Does Competition among Public Schools Benefit Students and Taxpayers?" *American Economic Review*, 90(5): 1209-1238.
 - Rothstein, J. (2007), "Does Competition Among Public Schools Benefit Students and Taxpayers? Comment." *American Economic Review*, 97(5): 2026-2037.
 - Hoxby, C. M. (2007), "Does Competition Among Public Schools Benefit Students and Taxpayers? Reply." *American Economic Review*, 97(5): 2038-2055.
- Behrman, J. R. and M. J. Rosenzweig (2002), "Does Increasing Women's Schooling Raise the Schooling of the Next Generation?" *American Economic Review*, 92(1): 323-334.
 - Antonovics, K. L. and A. S. Goldberger (2005), "Does Increasing Women's Schooling Raise the Schooling of the Next Generation? Comment" *American Economic Review*, 95(5): 1738-1744.
 - Behrman, J. R. and M. J. Rosenzweig (2005), "Does Increasing Women's Schooling Raise the Schooling of the Next Generation? Reply" *American Economic Review*, 95(5): 1745-1751.

Week of March 15: SPRING BREAK, NO CLASS

Selected Topics in Economic Policy Analysis, Weeks of March 22 and 29

- H&M Chapter 25
- Dreze, J. and N. Stern (1987), "Chapter 14 The theory of cost-benefit analysis," *Handbook of Public Economics*, Volume 2: 909-989. (I will provide a copy from the department's volume.)

Introduction to Social Insurance Policy, Weeks of April 5 and April 12

- H&M Chapters 22-23
- Samuelson, P. (1958), "An Exact Consumption-Loan Model of Interest with or without the Social Contrivance of Money," *Journal of Political Economy*, 66(6): 467-482.
- Feldstein, M. (1974), "Social Security, Induced Retirement, and Aggregate Capital Accumulation," *Journal of Political Economy*, 82(5): 905-926.
- Feldstein, M. (1985), "The Optimal Level of Social Security Benefits," *Quarterly Journal of Economics*, 100(2): 303-320.
- Gruber, J. (1997), "The Consumption Smoothing Benefits of Unemployment Insurance," *American Economic Review*, 87(1): 192-205.
- Bernheim, B. D., Skinner, J., and Weinberg, S. (2001), "What Accounts for the Variation in Retirement Wealth among U.S. Households," *American Economic Review*, 91(4): 832-857.
- Autor, D. H. and Duggan, M. D. (2006), "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding," *Journal of Economic Perspectives*, 20(3): 71-96.
- Listen to Chetty lectures (Topic 6, parts 1-3 and 5-6)

THURSDAY, APRIL 14: LITERATURE REVIEW/RESEARCH PROPOSAL DUE in class, please provide TWO printed copies

Literature Review/Research Proposal Presentations, Weeks of April 19 and 26

I will distribute research proposals for final classmate critique at the *end* of the presentations.

A Taste of Behavioral Economics and/or Other Final Topics, Week of May 3

- H&M Chapter 3
- Rabin, M. (1998), "Psychology and Economics," *Journal of Economic Literature*.
- DellaVigna, S. (2009), "Psychology and Economics: Evidence from the Field," *Journal of Economic Literature*.

WEDNESDAY, MAY 11: CLASSMATE CRITIQUE DUE, 12 NOON SHARP, my office