

**ECON 520 Public Economics I**  
**Fall 2018**  
**Instructor: Dr. Anita Alves Pena**

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Class Meetings: TR 9:30am-10:45am, Education 1

Office Hours: before or after class, or knock or make appointment

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 three to four assigned required readings (journal articles) per week which may take one to two hours (or longer) each depending on your particular background and reading speed. 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 (at least) 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). In some weeks, you may do more since this is a graduate class.

**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, which may be used in the course, are also subject to copyright protections. Posting course materials on external sites (commercial or not) violates both copyright law and 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 the Student Conduct Code. At minimum, violations will result in a grading penalty in this course and a report to the Office of Conflict Resolution/Student Conduct Services.

## **Grading:**

Please note the due date (due at start of class unless otherwise noted) for assignments on the schedule below. Note that you may have a presentation on the same date that something else is due. In this case, you will need to plan ahead.

### *Class Participation and Paper Reflections (20%)*

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. To ensure that this happens, a 1-2 page reflection of select readings will be due in some weeks. For these reflections, you should (1) briefly summarize the research question, data, design, and (main) result and (2) provide an analytical response to the paper (E.g., Any flaws? Assumptions and design believable? What you still don't understand and why it's confusing? Extensions? Etc.). These reflection papers should not exceed 2 printed pages and (2) should be greater than (1) in terms of length of discussion. I will select the papers for this exercise and will let you know which ones to review. They will be due on the day of the class discussion. You should expect to discuss your thoughts along these lines in class on both papers for which you write reflections and for other readings.

### *Literature Presentations (30%)*

Each of you will present ~~TWO three~~ papers to the class from the syllabus below and lead subsequent discussion. Presentations should be of similar format to how papers are presented in a short 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. You should aim for a presentation that is less than 20 minutes to allow plenty of discussion (which you will lead). I will randomly assign the presentations early in the semester. Note that readings listed with a "(P)" in front will be presented by a student. That student will also lead the class discussion of the paper. I will add additional presentations (from existing readings) if more people join the class in the registration period.

### *Mock Referee Report (10%)*

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.) 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.

### *Research/Data Proposal (30%)*

You will write an original research proposal (not submitted in any other class) corresponding to a topic related to public economics (broadly-defined) which is of interest to you AND which could be submitted to a federal statistical data center as part of a proposal. The paper should be 10 pages in length max (double-spaced, one inch margins) and cover at least five journal articles or working papers as (short) background and motivation for the data use. 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 using restricted data (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 Research/Data 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! I will assign the presentation slots.

### **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. 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 during the semester or later on.

### *Introduction and Review of Tools for Welfare Economics, Week of August 20*

- 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>)

### *Public Goods, Week of August 27*

- 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 (also short) 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 September 3*

- 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.
- (P) 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.

- (P) 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.

THURSDAY, SEPTEMBER 6: Seminar speaker is Dr. Todd Stinebrickner from University of Western Ontario who is a guest of the faculty in the public economics field. If possible, please attend the lunch at 12 in the conference room and seminar in usual seminar room (double check seminar announcements) in the afternoon (3:30).

*Fiscal Federalism and Intergovernmental Relations*, Week of September 10

- 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.
  - Inman, R. P. (2009). "Flypaper effect," In *The New Palgrave Dictionary of Economics* (pp. 1-6). Palgrave Macmillan, London.
  - Vegh, C. A., and Vuletin, G. (2015), "Unsticking the flypaper effect in an uncertain world," *Journal of Public Economics*, 131, 142-155.
- (P) Oates, W. E. and R. M. Schwab (1988), "Economic Competition Among Jurisdictions: Efficiency- Enhancing or Distortion-Inducing?" *Journal of Public Economics*, 35: 333-354.
- (P) Holtz-Eakin, D. (1988), "The Line-Item Veto and Public Sector Budgets: Evidence from the States," *Journal of Public Economics*, 35: 269-292.
- (P) 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.

TUESDAY, SEPTEMBER 18: referee report due, please provide print copy in class

*Education Policy (including Examples of Academic Debates)*, Weeks of September 17 and 24

- Feldstein, M. S. (1975), "Wealth Neutrality and Local Choice in Public Education," *American Economic Review*, 65(1): 75-89.
- (P) 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.
- (P) 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.
- (P) 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.  
Class will also discuss:
  - 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.
- (P) Hoxby, C. M. (2000), "Does Competition among Public Schools Benefit Students and Taxpayers?" *American Economic Review*, 90(5): 1209-1238. Class also will discuss comment and reply below:
  - 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.
- (P) 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. Class also will discuss comment and reply below:

- 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.

*Selected Topics in Economic Policy Analysis*, Weeks of October 1 and 8

- 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.)

TUESDAY, OCTOBER 16: deadline to submit a one-page description of your research/data proposal topic for approval, should include research question, economic motivation, and a list of papers and data sources that will be reviewed, please provide print copy in class. (Note that you also can elect to submit this earlier in the term if ready.)

*Social Insurance Policy*, Weeks of October 15, 22, and 29.

- 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. S. (1982), “Social security and private saving: reply,” *Journal of Political Economy*, 90(3), 630-642.
  - Feldstein, M. (1985), “The Optimal Level of Social Security Benefits,” *Quarterly Journal of Economics*, 100(2): 303-320.
  - Feldstein, M., & Liebman, J. B. (2002), “Social security,” *Handbook of public economics*, 4, 2245-2324.
- (P) Gruber, J. (1997), “The Consumption Smoothing Benefits of Unemployment Insurance,” *American Economic Review*, 87(1): 192-205.
- (P) 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.
- (P) Deshpande, M. (2016), “Does welfare inhibit success? The long-term effects of removing low-income youth from the disability rolls,” *American Economic Review*, 106(11), 3300-3330.
- (P) Hastings, J., and Shapiro, J. M. (forthcoming), “How Are SNAP Benefits Spent? Evidence from a Retail Panel.” *American Economic Review*.
- Chetty, R., Hendren, N., and Katz, L. F. (2016), “The effects of exposure to better neighborhoods on children: New evidence from the Moving to Opportunity experiment,” *American Economic Review*, 106(4), 855-902.
- Hoynes, H., Schanzenbach, D. W., and Almond, D. (2016), “Long-run impacts of childhood access to the safety net,” *American Economic Review*, 106(4), 903-34.
- Listen to Chetty lectures (Topic 6, parts 1-3 and 5-6)

*Emerging topics: Behavioral Economics and Inequality*, Weeks of November 5, 12, and 26 [Note that class will switch to online for this part of the term. You will be expected to login and actively participate in the discussion posts and this will count toward class participation.] Additional papers may or may not be added. In addition to readings, discussion posts also will be designed to help you provide feedback to each other on your proposals in progress.

- H&M Chapter 3
- Rabin, M. (1998), “Psychology and Economics,” *Journal of Economic Literature*. 36(1), 11-46.
- DellaVigna, S. (2009), “Psychology and Economics: Evidence from the Field,” *Journal of Economic Literature*. 47(2), 315-372.
- Autor, D. H. (2014), “Skills, education, and the rise of earnings inequality among the ‘other 99 percent’,” *Science*, 344, 843-851.
- Chetty, R., Hendren, N., Kline, P., and Saez, E. (2014), “Where is the land of opportunity? The geography of intergenerational mobility in the United States,” *Quarterly Journal of Economics*, 129(4), 1553-1623.

*Research/Data Proposal Presentations*, Week of December 3

TUESDAY, DECEMBER 4: RESEARCH/DATA PROPOSAL DUE in class, please provide print copy