Ec 490: Advanced Public Economics

Syllabus (Winter 2020)

Instructors:
Ashley Craig, ashcraig@umich.edu
Ellen Stuart, stuartem@umich.edu

Office Hours:
Craig: 258 Lorch Hall. Sign up: https://ashcraig.appointlet.com/s/10m
Stuart: 113 Lorch Hall. Mondays, 1:00-2:00.

Logistics: Two lectures per week (Tuesday/Thursday) from 10:00 to 11:30 in 296 Weiser

Description: What role should governments play in the economy? We will review the conditions under which free markets lead to Pareto efficient outcomes – i.e., the government has no way to make everyone better off. We will then discuss how governments may want to intervene to correct for market failures. Even when markets lead to efficient outcomes, we will study why they may use imperfect tools such as taxes to change how outcomes like income are distributed between individuals and groups.

The aim of the course is to foster an understanding of the tools required to analyze and evaluate government policies, and develop the student's ability to communicate the conclusions of their analysis to different audiences. We will cover the philosophical foundations of Public Economics, key empirical facts, and both theoretical and empirical methods. Providing time permits, topics will include labor and capital income taxation, externalities, public goods, education, social insurance and discrimination.

Learning Outcomes: Emphasis will be placed on: (1) understanding key questions in Public Economics; (2) theoretical and empirical tools; (3) critically reading and summarizing academic articles; and (4) communicating research findings to technical and non-technical audiences.

Enforced Prerequisites: ECON 401 (minimum grade of C- or better); or graduate standing.

Strongly Advised: STATS 250, or ECON 249, or STATS 426, or ECON 451.

Contacting Us: If our office hours are not convenient, we can schedule an alternative time. We are also available by email. Please put "Economics 490" in the subject line. Expect a reply within 48 hours.

Ongoing Feedback: We would greatly value feedback as we go, and will do our best to incorporate it. You can provide feedback here: https://umich.qualtrics.com/jfe/form/SV_88GldR91WZrSJV3 at any time during the semester, and as many times as you like.

Electronics: Cell phones are not allowed. Computers and tablets may **only** be used to take notes or access course files. If you fail to comply, we will ask you not to use any device, **regardless of purpose**.

Grading: The grade is based on participation, 4 problem sets and 4 policy memoranda. There are 130 points in the class. However, both your lowest combined memo grade **and** your lowest problem set grade will be dropped from your final grade, and so your final grade will be out of 100. You may thus choose to submit only three of the four problem sets, and three of the four memo assignments. However, we **recommend** that you complete all eight assignments. Since you can get an A in this course even if a scheduling conflict, illness or other unexpected circumstance precludes you from completing part of a memo assignment, **extensions will not be granted** for any aspect of the assignments.

There will not be a curve for the course grade; but we will target a minimum number of As, and a minimum combined number of As and Bs, based on historical distributions for 400-level electives.

Please note that memo drafts are due **outside of class**, but problem sets are due **in class**. Memos should be submitted **online through the course website on Canvas**. **Late memos will be penalized by 1 point for each hour after the deadline** they are submitted to Canvas. For instance, if an assignment is due at 8pm and it is uploaded to Canvas at 9:05pm, it will be docked 2 points from the total score.

Participation Requirement: Participation is an important part of the class. 10 points of your final grade will be based on your class attendance. You are allowed 3 unexcused absences from this class with no penalty. After that, you will be docked 1 point for each additional unexcused absence from the class. Please **sign in with our GSI** at the beginning of every class in order to have your attendance recorded.

Problem Set Guidelines: There will be 4 problem sets over the semester, comprised of analytical and short-answer questions. Questions will be distributed at least two weeks before the due dates. Students may discuss these questions with each other, but must write up solutions **entirely on their own**.

Memorandum Guidelines: Students will complete 4 memoranda in response to policy prompts. Topics will be distributed 2 weeks in advance. Each exercise will be comprised of 3 separately-graded components: an academic draft, a peer review exercise, and a policy draft. Academic drafts are due at 8pm the day before review sessions. Policy drafts will be due 72 hours after the academic submission.

Assignment	Version	Page Reqt.	Points	Due Date/Time	Where
Participation			10 pts		
Problem Set 1			10 pts	Feb 11	In class
Memo 1	Academic	5 pages	6 pts	Feb 17 (8pm)	Canvas
	Peer Review		4 pts	Feb 18	In class
	Policy	3 pages	10 pts	Feb 20 (8pm)	Canvas
Problem Set 2			10 pts	Feb 27	In class
Memo 2	Academic	5 pages	6 pts	Mar 11 (8pm)	Canvas
	Peer Review		4 pts	Mar 12	In class
	Policy	3 pages	10 pts	Mar 14 (8pm)	Canvas
Problem Set 3			10 pts	Mar 24	In class
Memo 3	Academic	5 pages	6 pts	Mar 30 (8pm)	Canvas
	Peer Review		4 pts	Mar 31	In class
	Policy	2 pages	10 pts	Apr 2 (8pm)	Canvas
Problem Set 4			10 pts	Apr 9	In class
Memo 4	Academic	5 pages	6 pts	Apr 15 (8pm)	Canvas
	Peer Review		4 pts	Apr 16	In class
	Policy	2 pages	10 pts	Apr 18 (8pm)	Canvas

Academic drafts should be 5 pages double-spaced, with 12 point Times New Roman font and 1 inch margins. It is appropriate to use technical language in this version, which should dive deeply into the topic. Students will participate in peer review sessions to evaluate the tone, structure, language and content of the drafts. They then submit a policy version of the memo that incorporates the peer feedback, condenses the arguments to fewer pages, and adapts it to be accessible to a general audience.

Regrading Policy: If a student believes there was an error in the grading of their assignment, they should submit a written request for regrading with an explanation of their concerns **within one week** of the distribution of the graded assignments. If an assignment is submitted for regrading, the entire assignment will be reviewed, which could result in a higher or lower grade than originally received.

Academic Integrity: The course complies with the Economics Department policy on academic integrity: http://lsa.umich.edu/content/dam/econ-assets/Econdocs/Academic%20Misconduct.pdf. Plagiarism

in any form will not be tolerated in this course. We will discuss what plagiarism is in class and go through explicit examples. If you have any remaining uncertainty over what constitutes plagiarism or if your writing might plagiarize another person's work, it is your responsibility to contact the GSI or the instructor prior to submitting an assignment to review these concerns.

The assignments in this class are **not** group projects. Although discussion of the problem set questions is encouraged, each submitted assignment must reflect the student's **own** work.

Thanks: This course builds on the work of Stefanie Stantcheva, Raj Chetty, Emmanuel Saez, Nathan Hendren, Casey Rothschild, Josh Abel, Anthony Yu, Andrew Garin, Alex Rees-Jones, David Laibson...

Sweetland Center: We encourage you to make use of the Sweetland Center for Writing, which offers free one-to-one writing support to all students at the University of Michigan, regardless of background or discipline. Sweetland faculty and peer writing consultants meet with student writers to help with any stage of the writing process, from initial brainstorming to final revisions. Learn more about Sweetland's writing support, locations, and online writing consultations at https://www.lsa.umich.edu/sweetland.

Student Mental Health and Wellbeing: U of M is committed to advancing the mental health and well-being of its students. If you or someone you know is feeling overwhelmed, depressed, and/or in need of support, services are available. For help, contact Counseling and Psychological Services (CAPS) at (734) 764-8312 and https://caps.umich.edu/ during and after hours, on weekends and holidays, or through its counselors physically located in schools on both North and Central Campus. You may also consult the University Health Service (UHS) at (734) 764- 8320 and https://www.uhs.umich.edu/mentalhealthsvcs, or for alcohol or drug concerns, see www.uhs.umich.edu/aodresources. For a listing of other mental health resources available on and off campus, visit: http://umich.edu/~mhealth/.

Readings

Textbook: Gruber, J., Public Finance & Public Policy (any edition, but page references are for the 5th).

Types of Readings: The course calendar is below. Due dates for graded exercises are noted in the leftmost column. Double-starred readings (**) are **required**. Others are supplemental. Note that some of the academic articles are long and challenging. Our aim is for you to spend enough time on each article to understand the question asked by the author, their answer to that question, and how they reached their answer. We expect you to spend **between 0.5 to 1.5 hours** on each, depending on the article.

Updates: The reading list may change over the semester. The most current version will be on Canvas.

Useful Writing Resources (Optional):
  Book   Deidre McCloskey, Economical Writing
  Book   Steven Pinker, The Sense of Style: The Thinking Person's Guide to Writing in the 21st Century
  Help   https://lsa.umich.edu/sweetland/undergraduates/writing-support.html

Course Calendar + Reading List

Due	**Date**	**Topic & Readings**
	Jan 9 (Thu)	1. Introduction to Public Economics
		• **Craig, A. (2019), This Syllabus!
		• **Gruber, Chapter 1.
		• **Explore this tool: https://graphics.wsj.com/what-percent/

Jan 14 (Tue)   2. Defining and Measuring Inequality
                 • **Gruber, Chapter 17 (17.1 + 17.2 only) + Chapter 18 (up to 18.4)
                 • **Piketty, T. & Saez E. (2003), "Income Inequality in the United States,
                 1913-1998", Quarterly Journal of Economics, 118, 1-41.
                 • Explore this: https://www.opportunityatlas.org/ (do tutorial first!)

Jan 16 (Thu)   3. Theoretical Tools for Public Economics
                 • **Gruber, Chapter 2.

Jan 21 (Tue)   4. Empirical Tools for Public Economics
                 • **Gruber, Chapter 3.
                 • **Imbens, G., Rubin D., and Sacerdote, B. (2001), "Estimating the Effect
                 of Unearned Income on Labor Earnings, Savings, and Consumption: Ev-
                 idence from a Survey of Lottery Players", American Econ. Review, 91(4),
                 778–794 (**ONLY** abstract, introduction, Table 2, Figures 1 & 2, conclusion).
                 • Nobel Prize in Economics press release 2019:
                 nobelprize.org/uploads/2019/10/press-economicsciences2019-2.pdf

Jan 23 (Thu)   5. Tax Incidence & Efficiency Costs of Taxation
                 • **Gruber, Chapter 19

Jan 28 (Tue)   6. Reading and Writing for Researchers and Policymakers
                 • **Doyle, J., & Samphantharak, K. (2008), "$2.00 Gas! Studying the ef-
                 fects of a gas tax moratorium", Journal of Public Econ., 92(3), 869–884
                 (**ONLY** abstract, introduction, background, Figures 1 & 2, conclusion)

Jan 30 (Thu)   7. Optimal Labor Income Taxation
                 • **Gruber, Chapter 20 + Chapter 21 (intro and 21.1 only)
                 • Optional to explore: https://www.taxpolicycenter.org/statistics

Feb 4 (Tue)   8. Optimal Labor Income Taxation (continued. . .)
                 • **Mankiw, G., Weinzierl, M. & Yagan, D. (2009), "Optimal Taxation in
                 Theory and Practice", Journal of Economic Perspectives, 23(4), 147–74 (all
                 EXCEPT lessons 6-8; advanced, so just do your best and don't panic).

Feb 6 (Thu)   9. Taxes and Labor Supply
                 • **Gruber, Chapter 21 (remainder of the chapter).

PSET 1   Feb 11 (Tue)   10. Taxes and Reported Income (**Problem Set 1** due in class)
                 • **Saez, E., Slemrod J. & Giertz S. (2012), "The Elasticity of Taxable In-
                 come with Respect to Marginal Tax Rates: A Critical Review", Journal of
                 Economic Literature, 50(1), 3–50.

Feb 13 (Thu)   11. Externalities
                 • **Gruber, Chapter 5 + 6 (Introduction, 6.1 & 6.2)
                 • **Metcalf, G. (2009), "Market-based Policy Options to Control U.S.
                 Greenhouse Gas Emissions", Journal of Economic Perspectives, 23(2).

MEMO 1 Feb 17 (Mon)   Due on Canvas at 8pm: **Memo 1 (Academic)**

MEMO 1 Feb 18 (Tue)   12. Peer Feedback in Class: **Memo 1**

MEMO 1 Feb 20 (Thu)   Due on Canvas at 8pm: **Memo 1 (Policy)**

           Feb 20 (Thu)   13. Public Goods
                           • **Gruber, Chapter 7.

           Feb 25 (Tue)   14. Taxes on Capital and Savings
                           • **Gruber, Chapter 22.

PSET 2   Feb 27 (Thu)   15. Corporate Taxation (**Problem Set 2** due in class)
                           • **Gruber, Chapter 24.

           Mar 3 (Tue)   Vacation: No Class

           Mar 5 (Thu)   Vacation: No Class

           Mar 10 (Tue)   16. Behavioral Public Finance
                           • **Beshears, J., Choi, J., Laibson, D. & Madrian, B. (2008), "How Are
                           Preferences Revealed?", Journal of Public Economics, 92(8-9), 1787–1794.

MEMO 2 Mar 11 (Wed)   Due on Canvas at 8pm: **Memo 2 (Academic)**

MEMO 2 Mar 12 (Thu)   17. Peer Feedback in Class: **Memo 2**

MEMO 2 Mar 14 (Sat)   Due on Canvas at 8pm: **Memo 2 (Policy)**

           Mar 17 (Tue)   18. Behavioral Public Finance (continued. . .)
                           • **Chetty, R., Looney A. & Kroft, K. (2009) "Salience and Taxation: The-
                           ory and Evidence", American Economic Review, 99(4), 1145–1177.

           Mar 19 (Thu)   19. Political Economy
                           • **Gruber, Chapter 9..

PSET 3   Mar 24 (Tue)   20. Social Insurance & Health Insurance (Part I) (**Pset 3** due in class)
                           • **Gruber, Chapters 12 & 15.

           Mar 26 (Thu)   21. Health Insurance (Part II)
                           • **Gruber, Chapter 16.
                           • Currie, J, & Gruber, J. (1997) "The technology of birth: Health insur-
                           ance, medical interventions, and infant health", Working Paper No. 5985,
                           National Bureau of Economic Research.
                           • Finkelstein, A., Taubman, S., Wright, B., Bernstein, M., Gruber, J., New-
                           house, J., Allen, H. & Baicker, K. (2012), "The Oregon Health Insurance
                           Experiment: Evidence from the First Year", QJE, 127(3), 1057–1106.

MEMO 3	Mar 30 (Mon)	Due on Canvas at 8pm: **Memo 3 (Academic)**
MEMO 3	Mar 31 (Tue)	22. Peer Feedback in Class: **Memo 3**
MEMO 3	Apr 2 (Thu)	Due on Canvas at 8pm: **Memo 3 (Policy)**
	Apr 2 (Thu)	23. Unemployment Insurance • **Gruber, Chapter 14.
	Apr 7 (Tue)	24. Education • **Gruber, Chapter 11. • Lange, F. & Topel, R. (2006), "The Social Value of Education and Human Capital", Handbook of the Economics of Education, Vol. 1, Ch. 8.
PSET 4	Apr 9 (Thu)	25. Intergenerational Inequality (**Problem Set 4** due in class) • Chetty, R., Hendren, N., & Saez, E. (2014), "Where is The Land of Opportunity? Intergenerational Mobility In The US", Quarterly Journal of Economics, 129(4), 1553–1623.
	Apr 14 (Tue)	26. Discrimination • Agan, Amanda & Sonja Starr (2018) "Ban the Box, Criminal Records, and Racial Discrimination: A Field Experiment", Quarterly Journal of Economics 133(1), 191–235.
MEMO 4	Apr 15 (Wed)	Due on Canvas at 8pm: **Memo 4 (Academic)**
MEMO 4	Apr 16 (Thu)	27. Peer Feedback in Class: **Memo 4**
MEMO 4	Apr 18 (Sat)	Due on Canvas at 8pm: **Memo 4 (Policy)**
	Apr 21 (Tue)	28. Review of the Course • No readings