

## ECON-840: Public Economics

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**Course Meeting** Monday 2:30-3:50PM, Sutherland334 &  
Wednesday 1-2:20PM, Dunning 213

**Office Hours:** Tuesday 2:15- 3:45pm and by appointment

**Course Description:** In ECON-840 we strive to bring our students to the frontier of the current public economic research and attempt to do some justice to the depth, breath and pace of such development through a series of papers that are a combination of theory, experiments and empirical analyses through both the conventional as well as behavioral lenses to evaluate the effects of public policies. It considers economic incentives in various organizations and institutions, models of economic behavior, the consequences of market failure as well as government failure, the interventions in markets and policy objectives and instruments. It will cover policy issues such as income inequality, health care, retirement savings and school choices as well as social issues such as discrimination and segregation.

**Objectives:** After completing this course, you will be able to:

- 1) Be a producer of simple economic policy analysis;
- 2) Be an informed consumer of fairly sophisticated economic policy research.
- 3) Be able to carry out simple empirical/data analysis.

**Course Prerequisites:** Intermediate microeconomics and undergraduate econometrics or their equivalent. Students are also expected to be comfortable with graphs, tables, basic algebra and calculus among others. Students should be concurrently taking a graduate level course in Microeconomics and Econometrics and be prepared to solve homework problems involving statistical software. If you have questions about the requirement, please see me.

### Required Readings:

Assigned readings are integral parts of this course. They are essential to both your understanding of and success in the course. It is absolutely necessary that you complete the corresponding required readings before the class for which they are intended. Most of the readings are listed at the course website.

The syllabus contains a list of topics and required readings that may evolve based on interests of the class.

**Reference Textbooks** provide a structured background to the topics and terminologies the papers on the reading list relate to:

#### **I. in Public Economics**

**(Gruber) Public Finance and Public Policy** by Jonathan Gruber, Worth Publishers (multiple editions (5<sup>th</sup> edition, 2016 as of late), more current policy research issues and findings, more on US policies).

**(Rosen et al.) Public Finance in Canada** by Harvey Rosen, Beverly Dahlby, Roger Smith and Paul Boothe, McGraw-Hill (multiple Canadian editions (4<sup>th</sup> edition, 2012 as of late), traditional approach to public finance, covers some Canadian policies).

**(Congdon et al.) Policy and Choice: Public Finance through the Lens of Behavioral Economics** by William J. Congdon, Jeffrey R. Kling and Sendhil Mullainathan (2011, The Brookings Institution, PDF form is free for download and Paperback is available for purchase.)

#### **II. in Microeconomics**

**(Jehle & Reny) Advanced Microeconomic Theory** by Geoffrey A. Jehle and Philip J. Reny, Addison Wesley (three editions total, provides excellent background on GE and welfare analyses in public economics).

#### **III. in Microeconometrics**

**(Wooldridge) Econometric Analysis of Cross Section and Panel Data, 2nd Edition** by Jeffrey M. Wooldridge, MIT Press.

#### **IV. on Writing**

There is the time-tested classic **The Elements of Style** by William Strunk Jr. and E. B. White and the latest addition **The Sense of Style** by Stephen Pinker, although I have it on good authority that if you can read an Economist magazine cover to cover without resorting once to a dictionary, your English is better than 99.9% of the native speakers... For a lower-bar aspiration, if you can write like those articles you read in the WSJ and FT-clear, concise and unassuming-you are already writing very well.

**Topics and Required Readings** (subject to change)

**I. Introduction to Microeconomic Policy Analysis and Modeling**

What is the role of microeconomics in public policy analysis? How are models constructed to make predictions and evaluate specific policy alternatives? How does Becker use this framework to analyze social issues?

Gary S. **Becker**, “Nobel Lecture: The Economic Way of Looking at Behavior”, *Journal of Political Economy* 1993, 101(3): 385-409.

**II. Private Incentives and Public Policy**

Effective public policy must take into account individual incentives. We study under this topic why some policies succeed and others fail to be implemented by the US government from the experience of a Nobel Laureate. Is the Pareto criterion useful given the practical realities underscored by Stiglitz? Is efficiency a desirable goal for society? What is an equity / efficiency tradeoff? To what extent this analysis of the inner working of government is applicable in Canada?

Joseph E. **Stiglitz**, “The Private Uses of Public Interests: Incentives and Institutions”, *Journal of Economic Perspectives* 1998, 12(2): 3-22.

Acemoglu, Daron, and James A. Robinson, "Economics versus Politics: Pitfalls of Policy Advice", *Journal of Economic Perspectives* 2013, 27(2): 173-92.

Thomas **Piketty**, “Brahmin Left vs Merchant Right: Rising Inequality and the Changing Structure of Political Conflict”, *WID Working Paper Series N° 2018/7*.

**III. Public Goods: Private versus Public Provision**

What are the issues for public sector to provide public goods? How do we decide whether private or public sector should provide certain public good? What do we know when private incentives enter into the discussions of public good provisions?

*Background:*

Lipsey, Richard G. and Kelvin Lancaster, “The General Theory of Second Best,” *The Review of Economic Studies* 1956, 24 (1): 11-32.

Lipsey, Richard, “Reflections on the general theory of second best at its golden jubilee,” *International Tax and Public Finance* 2007, 14 (4): 349-364.

Andrei **Shleifer**, “State versus Private Ownership “, *Journal of Economic Perspectives* 1998, 12(4): 133-150.

**Epple**, Dennis and Richard E. **Romano**, “Ends against the middle: Determining public service provision when there are private alternatives”, *Journal of Public Economics* 1996, 62 (3): 297-326.

#### **IV. OPTIMAL & BEHAVIORAL TAXATION**

Optimal income taxation and the debate on progressive taxation. What is the cost of taxation? Who pays taxes? Whether to tax consumption or income, to use indirect or direct taxation, or which tax base to select? What happens if individuals fail to optimize?

*Background:*

Stiglitz, Joseph E., “New perspectives on public finance: recent achievements and future challenges,” *Journal of Public Economics* 2002, 86 (3): 341-360.

##### **4.1 Inequality, Incidence and welfare analysis in the rational framework.**

Thomas **Piketty**, Emmanuel **Saez** & Gabriel **Zucman**, “Distributional National Accounts: Methods and Estimates for the United States”, *Quarterly Journal of Economics* 2018, 133(2): 553–609.

*Background:*

Alan Auerbach and James Hines, “Taxation and Economic Efficiency,” *Handbook of Public Economics*, vol. 3, Chapter 21; Sections 1-3.

Hines, J. , “Three Sides of Harberger Triangles”, *Journal of Economic Perspectives* 1999, 13 (2): 167-188.

Martin Feldstein, “Tax Avoidance and the Deadweight Loss of the Income Tax,” *Review of Economics and Statistics* 1999, 81(4): 674-680.

Liran Einav, Dan Knoepfle, Jonathan Levin, and Neel Sundaresan, “Sales Taxes and Internet Commerce,” *American Economic Review* 2014, 104(1): 1-26.

Alberto **Alesina**, Andrea **Ichino**, and Loukas **Karabarbounis**, “Gender Based Taxation and the Division of Family Chores,” *American Economic Journal: Economic Policy* 2011, 3(2): 1-40.

#### 4.2 *Incidence and welfare analysis in the behavioral framework.*

Raj **Chetty**, Adam **Looney** & Kory **Kroft**, "Salience and Taxation: Theory and Evidence." *American Economic Review* 2009, 99 (4): 1145–77.

Raj Chetty, "The Simple Economics of Salience and Taxation," NBER Working Paper No. 15246, August 2009.

Marika **Cabral** and Caroline **Hoxby**, "The Hated Property Tax: Salience, Tax Rates, and Tax Revolts", mimeo, 2018, Stanford University.

#### **V. Education: Efficiency vs. Equity**

How does an analyst define equity in the absence of a social consensus on the appropriate standard? Discuss the key equity considerations in the public financing of primary education in the Canada. Are there any implications for efficiency (Make sure you carefully define equity and efficiency)? Do investments in education improve outcomes?

*Background:*

Tiebout, C., "A Pure Theory of Local Expenditures", *Journal of Political Economy* 1956, 64 (5): 416–424.

Oates, **Wallace**, "An Essay on Fiscal Federalism," *Journal of Economic Literature* 1999, 37 (3): 1120-1149.

**Epple**, Dennis, and Alan **Zelenitz**, "The Implications of Competition among Jurisdictions: Does Tiebout Need Politics?" *Journal of Political Economy* 1981, 89(6): 1197-1217.

Caroline **Hoxby**, "Are Efficiency and Equity in School Finance Substitutes or Complements?" *Journal of Economic Perspective* 1996, 10(4) : 51-72.

Hanushek, E.A. (2006), "School Resources", Chapter 14 in *Handbook of the Economics of Education*, Volume 2 Edited by E.A. Hanushek and F. Welch, Elsevier B.V.

**Todd**, P. E. and K. I. **Wolpin**, "On the specification and estimation of the production function for cognitive achievement", *Economic Journal* 2003, 113 (485): 3–33.

Ding, Weili and Steven Lehrer, "Understanding the role of time-varying unobserved ability heterogeneity in education production," *Economics of Education Review* 2014, 40(1): 55-75.

Benjamin M. Marx and Lesley J. Turner, "Student Loan Nudges: Experimental Evidence on Borrowing and Educational Attainment", forthcoming, *American Economic Journal: Economic Policy*.

### ***Early Childhood Development in Canada***

Baker, Michael, Jonathan Gruber and Kevin Milligan, "Universal Child Care, Maternal Labor Supply and Family Well-Being", *Journal of Political Economy* 2008, 116(4): 709-745.

Ding, Weili, Kottelenberg, Michael and Steven Lehrer, "Anticipating the (un)expected: Evidence from introducing a universal childcare policy with a shortage of spaces", mimeo 2018, Queen's University.

## **VI. Health Care**

We might be familiar with adverse selection and moral hazard in the health insurance market, but not so acquainted with the also prevailing behavioral hazards and advantageous selections that have large implications for reforming our healthcare system. Moreover, repugnance is a real constraint that we have to take into consideration into our design of health provision, anticipation of health demand, medical travel ethical issues etc.

Katherine Baicker, Sendhil Mullainathan & Joshua Schwartzstein, "Behavioral Hazard in Health Insurance", *Quarterly Journal of Economics* 2015, 130(4): 1623-1667.

Fang, H., M. P. Keane and D. Silverman, "Sources of Advantageous Selection: Evidence from the Medigap Insurance Market," *Journal of Political Economy* 2008, 116(2): 303-350.

Roth, Alvin E. , "Repugnance as a Constraint on Markets," *Journal of Economic Perspectives* 2007, 21(3): 37-58.

Slonim, Robert, Carmen Wang, and Ellen Garbarino, "The Market for Blood", *Journal of Economic Perspectives* 2014, 28(2): 177-96.

## VII. Savings and Retirement

Duflo, E. and E. Saez (2003), “The Role of Information and Social Interactions in Retirement Plan Decisions: Evidence from a Randomized Experiment”, *Quarterly Journal of Economics*, 2003, 118(3), 815-842.

Joshua Blumenstock, Michael Callen and Tarek Ghani, “Why Do Defaults Affect Behavior? Experimental Evidence from Afghanistan”, *American Economic Review* 2018, 108(10): 2868–2901.

Messacar, D. “Crowd-out, education, and employer contributions to workplace pensions: Evidence from Canadian tax records.” Forthcoming in *Review of Economics and Statistics*.

## VIII. Discrimination and Segregation

### 8.1 Job Market Discrimination

Marianne Bertrand and Sendhil Mullainathan, “Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination”, *American Economic Review* 2004, 94(4): 991-1013.

Philip Oreopoulos, “Why Do Skilled Immigrants Struggle in the Labor Market? A Field Experiment with Thirteen Thousand Resumes,” *American Economic Journal: Economic Policy*, 2011, 3(4): 148-71.

### 8.2 Residential Segregation

Jeffrey Kling, Lawrence Katz and Jeffrey Liebman, “Moving To Opportunity in Boston: Early Results of a Randomized Mobility Experiment”, *Quarterly Journal of Economics* 2001, 116(2): 607-654.

Eric Chyn, “Moved to Opportunity: The Long-Run Effects of Public Housing Demolition on Children”, *American Economic Review* 2018, 108(10): 3028–3056.

Philip Oreopoulos, “The Long Run Consequences of Growing Up in a Poor Neighborhood”, *Quarterly Journal of Economics* 2003, 118(4): 1533–1575.

Jean William Laliberte, “Long-term Contextual Effects in Education: Schools and Neighborhoods,” May 2018, Working paper, University of Calgary.

**Grading** (tentative):

Class Presentation	1 short	5%
	1 regular	17%
Homework	2 regular	20%
Referee Report	2 page	13%
Final Research Project		45%

**On Exam:** Students are allowed to use calculators, rulers, pens, pencils and erasers. No other materials will be permitted without prior permission from the instructor. Make up exam will only be given in extreme cases. If you must miss the exam, please see me well in advance to arrange some other suitable evaluation. Missing the exams without prior arrangement or compelling, verifiable reason will result in a zero grade. As well, evidence of the calamity should be provided.

**Class Presentation:** Since many graduates of the economics department find employment in the public sector, having experience at delivering a presentation to a lay audience is important. In this presentation, you will summarize a recent paper in the economics literature and relate it to a Canadian policy debate. You are limited to an eight slide PowerPoint or Beamer presentation. In a nutshell, your presentation should deal with the following questions:

- 1) What question does it ask and why should this audience (or government department) care?
- 2) What theory/research design/data is used? What are the key elements/variables?
- 3)-5) are relevant for papers with empirical/experimental components.
- 3) What empirical model is used? What is the key parameter to be identified?
- 4) What is the variation in the *treatment*? Do you believe this variation?
- 5) What are the results and their interpretation?
- 6) Is there a plausible alternative interpretation?
- 7) How does the paper contribute to the literature?
- 8) Are there any insights for public policy?

**Logistics:** Enrolled students are going to form study groups based on a topic they choose. The job for each group is to “personalize” the topic they adopt by defining a specific issue within the topic they are most interested in studying and provide associated research papers (no more than 2, subject to faculty review) for class discussion.



## CLASS POLICIES:

**On meeting with an instructor:** Office hours each week is the time slot your instructor dedicate to you throughout the course, which is also the best time to find her completely available to assist you. If there is a lineup during office hours, each student may only take up 10' per turn. When emailing to request meeting outside of office hours, please specify your availability in the next few days. Emailed questions will be answered usually in 72 hours excluding weekends and out of town trips.

**On Attendance:** Attendance of lectures is required. To minimize free-riding behavior and potential negative externalities to your classmates, I will deduct up to 5 points from your final marks of 100 points each time you fail to attend a lecture. The common rules of acceptable absenteeism apply.

**On Cooperation:** You may cooperate on problem sets. You may not cooperate while taking exams.

**On Re-grade:** A request for a re-grade shall be submitted to the instructor in writing. In such a case, I will reevaluate your complete exam and not just the specific questions and answers you wish to have reviewed. This does not apply to corrections of obvious grading errors.

**If you need help:** If you find that you are having difficulty with any of the material in this course:

(1) DO NOT let it build up. The material is very cumulative in nature and you are likely to find yourself only falling further behind.

(2) DO come and see the instructor, either after class or by making an appointment. Be forewarned: We expect that you have read the relevant readings and reviewed your notes BEFORE you come to my office.

**Academic Integrity:** Academic Integrity is constituted by the five core fundamental values of honesty, trust, fairness, respect and responsibility. These values are central to the building, nurturing and sustaining of an academic community in which all members of the community will thrive. Adherence to the values expressed through academic integrity forms a foundation for the "freedom of inquiry and exchange of ideas" essential to the intellectual life of the University (see the Senate Report on Principles and Priorities on the Queen's website).

Students are responsible for familiarizing themselves with the regulations concerning academic integrity and for ensuring that their assignments conform to the principles of academic integrity. Information on academic integrity is available in the Graduate Studies Calendar. Departures from academic integrity include plagiarism, use of unauthorized materials, facilitation, forgery and falsification, and are antithetical to the development of an academic community at Queen's. Given the seriousness of these matters, actions which contravene the regulation on academic integrity carry sanctions that can range from a warning or the loss of grades on an assignment to the failure of a course to a requirement to withdraw from the university.

**Disability Accommodations:** Queen's University is committed to achieving full accessibility for persons with disabilities. Part of this commitment includes arranging academic accommodations for students with disabilities to ensure they have an equitable opportunity to participate in all of their academic activities. If you are a student with a disability and think you may need accommodations, you are strongly encouraged to contact Student Wellness Services (SWS) and register as early as possible. For more information, including important deadlines, please visit the Student Wellness website at: <http://www.queensu.ca/studentwellness/accessibility-services/>

**Accommodation after the fact:** Once a student has written an exam, they may not subsequently be granted accommodation such as being offered a second opportunity to write the exam or have it count for less than originally specified in the course syllabus (re-weighted). Students who cannot perform to the best of their abilities due to a serious, extenuating circumstance should inform their instructor as soon as possible and before attempting an exam or completing a course to arrange appropriate accommodation.

**References:** In general, I am happy to provide references for employers or write letters of reference for students who plan to attend further graduate school. The strength of any recommendation remains positively correlated with your performance in this course. For job references, please email me with a heads up that a potential employer might call or email. Please also let the respective referee know if there are any skills of yours that I should highlight in my reply to them. Naturally, make sure that these claims are credible as my reputation is on the line. If you would like a letter of reference for graduate school please also attach a statement of purpose (if relevant) as well as a current CV / transcript. Please allow at least 3 weeks for the completion of letters.