

PPS 304 / ECON 338: Economics of the Public Sector
Fall 2012

Class meeting times

Section 1: T / TR 10:05 am - 11:20 am

Section 2: T / TR 11:45 am - 1:00 pm

Location: Rubenstein Hall 153

Important: Both sections are currently full. Please only come to the section in which you are enrolled unless you have prior approval from the instructor.

Attendance will be noted. If you miss class for some reason and want to see the lecture you missed, please go to the following Panopto link:

<http://sanford.capture.duke.edu/Panopto/Pages/Viewer/Default.aspx?id=1e3a8981-d2d0-4418-b8cb-fc86e78c0eae>

Instructor Contact Information

Marc Jeuland

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Office hours

T 2-4:45 pm, or by appointment

Teaching assistants

Lead TA:

Gregory Callanan (greg.callanan@duke.edu)

Office Hours: W 10:30-12:30, Rubenstein 287

Other TAs:

Geoffrey Alexander (geoffrey.alexander@duke.edu)

Office Hours: TH 3:00-4:00, Rubenstein 287*

Lauren Forbes (lauren.forbes@duke.edu)

Office Hours: M 11:30-12:30, Rubenstein 207*

Minori Hagiwara (minori.hagiwara@duke.edu)

Office Hours: W 9:30-10:30, Rubenstein 207

Rachel Leng (rachel.leng@duke.edu)

Office Hours: F 11:00-12:00, Rubenstein 287 **(Note: Hours and location not yet confirmed).**

**Please see the [office hours PDF](#) for information concerning alternate meeting locations.*

Greg was a TA for this course last year, and is thus most familiar with my teaching style and expectations. Geoff, Lauren and Minori are Masters students in the School of Public Policy and have a strong prior economics background. Rachel Leng is an undergraduate student who took this course last year, and is therefore also familiar with my teaching style and expectations.

Due to size of the course, please do not directly email the teaching assistants with general course-related questions unless a need exists to contact a specific TA.

Instead, feel free to email the TAs with questions to pps304-tas@duke.edu. TAs are responsible for monitoring this listserv and responding to your questions in a timely fashion, but please be sensitive to the fact that they, like you, are students with work in other courses, and with other commitments.

Course Description

(Last revised August 17 2012)

This course covers the basic economics of the public sector, including:

- Introduction to the scale and relevance of public finance;
- Implications of taxation (income/consumption/investment/etc.) and the sources of public funding;
- Specific applications related to insurance, e.g. medical care, safety nets, environmental risk exposure;
- Theories, issues and policies related to income redistribution across time and individuals;
- The economics of regulation, regulatory capture and leakage;
- Systems of property rights, and public goods; and
- Justification and use of economic cost-benefit analysis.

The focus throughout will be on developing analytical concepts in a way that will help you think about and conduct analysis of public policy issues. We will discuss applications to both domestic and international issues, although many examples presented in lecture will have a global theme.

The required course readings include textbook readings plus a number of supplementary articles. My expectation is that you will come to class prepared to discuss these readings. Occasionally I have listed optional reading that are in no way required but that may be of interest for students wanting to dig deeper into particular issues.

To prepare for the class discussions of assignments, you will need to have completed and submitted them on time. We will then discuss together the

economic and other policy issues raised in the case. I am hoping that you will enjoy these discussions and will find the associated work to be an enriching though challenging complement to the required readings in the course.

I will assume that all students have had an introductory microeconomics course and are familiar with basic concepts from that course, as well as from PPS 55. We will use little or no math other than basic algebra, graphs and calculations that can be done on a spreadsheet. You should keep your text books and notes from those courses handy so you can review basic analytical concepts as they come up again in this course. Students with a weak background in economics are strongly encouraged to meet with the TAs when concepts are not clear.

Required readings

The following required text is available in the Duke textbook store:
Jonathan Gruber. Public Finance and Public Policy. 3rd Edition. Worth Publishers, 2009.

All other required readings are available through Sakai under course documents by date of class. Please bear in mind that Duke has only just begun the transition to Sakai, so there may be hiccups associated with that move. It would be helpful if you inform me if and when you have difficulties with specific elements of Sakai related to this course.

In addition to the formal readings listed on the reading list, I may find additional, relevant and current articles in newspapers or other sources as the term progresses. I also welcome email links to articles of potential interest to the class from students.

Course requirements

Class participation (15 percent). Class participation is an important part of the course requirements. Attendance in class is expected, and will be included in your participation grade. There will be a short survey / reflection to fill out at the beginning or end of each class session that will allow me to keep track of who attends class and who has been doing the reading and paying attention to lectures.

Four assignments (40 percent). The written assignments will test your ability to apply and communicate basic concepts from public sector economics to realistic, though admittedly stylized, cases of policy analysis. These assignments are designed to help you learn as well as to test you on what

you have already learned. Some assignments may involve group work and discussion, but each will definitely include an individual component that may include the drafting of a policy memo. Assignments will be due at the beginning of class and should be turned in using Sakai; late submissions will only be accepted in exceptional circumstances if prior approval has been obtained.

One midterm (15 percent). Details on the format of the midterm will be provided later in the course.

Final exam (30 percent). Details on the format of the final exam will be provided later in the course.

Duke's Academic Integrity Policy

I remind you that, as is true for all Duke classes, students are expected to abide by Duke's academic integrity policy. To assist you in abiding by this policy, I will try to be very clear about when it is permissible to work with other students, and under what conditions, on specific assignments for this course. Please ask for clarification if my instructions are not clear.

Detailed Schedule

Aug 28 Introduction and overview for the course

Gruber. Chapter 1.

Sep 30 Basic theoretical tools for thinking about public investment (normative analysis)

Gruber. Chapter 2 (Pp.25-43).

Assignment 1 Out.

Sep 4 Budget analysis and deficit financing

Gruber. Chapter 4.

Other required readings - Recent press articles:

[NY Times. "Panel Seeks Social Security Cuts and Higher Taxes." November 10, 2010.](#)

[NY Times. "Of Debts and Doubts: Reading the Deficit Panel's Report." December 4, 2010.](#)

[NY Times. "Federal Budget \(2011 and 2012\) — Obama and Ryan Budget](#)

[Plans". Updated August 1, 2011.](#)

Sep 6 Additional tools of theoretical / empirical analysis

Gruber. Chapter 2 (Pp.43-57) and Chapter 3 (Pp.63-85).

Assignment 1 Due.

Sep 11 Theory of externalities and solutions. Example Applications of positive externality theory: Environmental health.

Gruber. Chapter 5.

Other required readings:

[Cook, J.; M. Jeuland; B. Maskery; D. Lauria; D. Sur; J. Clemens; D. Whittington \(2008\). "Using private demand studies to calculate socially optimal vaccine subsidies in developing countries." *Journal of Policy Analysis and Management* 28 \(1\): 6-28.](#)

Assignment 2 Out.

Sep 13 Applications of positive externality theory: Environmental health (continued)

Sep 18 Applications of negative externality theory: Pollution control

Gruber. Chapter 6. (6.1-6.2)

Other required readings:

[Gilbert E. Metcalf. "Market-based Policy Options to Control U.S. Greenhouse Gas Emissions." *Journal of Economic Perspective* vol 23, No. 2 \(Spring, 2009\), pp. 5-27.](#)

Sep 20 Public goods and common property resources

Gruber. Chapter 7.

Other required readings:

[King, D., M. Manville & D. Shoup \(2007\). "The political calculus of congestion pricing." *Transport Policy* 14: 111-123](#)

Other required readings - Recent press articles:

[Huffington Post. "Jack Daniel's Classy Book Cover Cease-and-Desist Letter for Patrick Wensink's 'Broken Piano for President'." July 2012.](#)

Assignment 2 Due.

Sep 25 Political Economy and Benefit Cost-Analysis: Ethical principles for decision-making

Gruber. Chapter 9.

Other required readings:

[Camerer, C., S. Issacharoff, G. Loewenstein, T. O'Donoghue, M. Rabin \(2003\). "Regulation for Conservatives: Behavioral Economics and the Case for "Asymmetric Paternalism." University of Pennsylvania Law Review 151 \(3\): 1211-1254.](#)

Assignment 3 Out.

Sep 27 Benefit Cost-Analysis: Complications (Distributional Analysis, Variability, Uncertainty)

Gruber. Chapter 8.

Other required readings:

[Boardman, Greenberg, Vining and Weimer, *Cost-Benefit Analysis Concepts and Practice, Second edition*. Prentice Hall, 2001. Chapter 19: "Distributionally Weighted Cost-Benefit Analysis," pp. 489-495.](#)

Oct 2 Structure of government (centralized vs. decentralized)

Gruber. Chapter 10.

Oct 4 Catch-up and assignment 3 debate

Assignment 3 due

Oct 9 Midterm exam

Oct 11 Introduction to taxation (US/Global)

Gruber. Chapter 18.

Oct 16 Fall break (no class)

Oct 18 Tax Incidence

Gruber. Chapter 19.

Other required readings:

[James M. Poterba, "Lifetime Incidence and the Distributional Burden of Excise Taxes, *American Economic Review*, May 1989, pp. 325-330.](#)

Oct 23 Taxation inefficiencies, taxing social "goods" and "bads"

Gruber. Chapters 20 and 21.

Other required readings - Recent press articles:

[Robert Frank. "Carbon tax silence, overtaken by events." *New York Times*, Aug. 25, 2012.](#)

[Forbes Magazine. "What's Better? A Carbon Tax or Energy Subsidies." Aug. 26, 2012.](#)

Assignment 4 out

Oct 25 Thinking about the interaction of taxation and behavior

Gruber. Chapter 22.

Other required readings - Recent press articles:

[Richard H. Thaler. "It's Time to Rethink the Charity Deduction." *New York Times*, Dec. 18, 2010.](#)

[Richard Rubin. "Capital Gains Fault Line as Obama-Romney Tax Plans Differ." *Bloomberg News*, May 30, 2012.](#)

Oct 30 Finish taxation

Gruber. Chapter 23 (Sections 23.2-23.3 only) and 24 (24.1-24.3 only).

Assignment 4 due

Nov 1 Theories of social insurance against risk and redistribution across time

Gruber. Chapter 12.

Nov 6 Social Insurance: Safety nets

Gruber. Chapter 14. (14.1-14.3)

Other required readings:

[Devereux, S. \(2002\). "Can Social Safety Nets Reduce Chronic Poverty?" *Development Policy Review* 20 \(5\): 657-675.](#)

Nov 8 Social insurance: Pensions

Gruber. Chapter 13. (13.1-13.3)

Other required readings:

[Barr, N. \(2002\). "Reforming pensions: Myths, truths, and policy choices." *International Social Security Review* 55 \(2\): 3-36.](#)

Assignment 5 out

Nov 13 Health insurance

Gruber. Chapter 15 and 16 (15.1-15.2; 16.1-16.4).

Other required readings:

[Point/Counterpoint. "What can Massachusetts Teach us about National Health Insurance Reform? " \(Theodore Joyce, Guest Editor, with statements and rebuttals by Douglas Holtz Eakin and Jonathan Gruber\). Journal of Policy Analysis, volume 30, no. 1, pp. 176-195.](#)

[Oberlander, J. \(2012\). "Unfinished Journey - A Century of Health Care Reform in the United States." *New England Journal of Medicine* 367\(7\): 585-589.](#)

[Song, Z. & B. Landon \(2012\). "Controlling Health Care Spending - The Massachusetts Experiment." *New England Journal of Medicine* 366\(17\): 1560-1561.](#)

Nov 15 Insurance against environmental risk: Floods and droughts

Required readings:

[Varangis, P., Skees, J. & Barnett, B. \(2002\). "Weather Indexes for Developing Countries." In *Climate Risk and the Weather Market*. Robert S. Dischel \(ed.\). Risk Books: London, UK.](#)

Nov 20 Programs for the poor: Justification for redistribution to poor

Gruber. Chapter 17 (17.1 only)

Other required readings:

[Frey, B. & A. Stutzer \(2002\). "What Can Economists Learn from Happiness Research? *Journal of Economic Literature* 40 \(2\): **402-418 only**.](#)

Assignment 5 due

Nov 22 Thanksgiving Holiday

Nov 27 Programs for the poor: Designing transfers

Gruber. Chapter 17 (17.2-17.4)

Other required readings:

[Rawlings, L. and G. Rubio \(2005\). "Evaluating the Impact of Conditional Cash Transfer Programs." *World Bank Research Observer* 20 \(1\): 29-55.](#)

Nov 29 Education:

Gruber. Education Chapter.

Other required readings:

[Ladd, H. \(2002\). "Introduction." Market-Based Reforms in Urban Education.](#)

Dec 4 Return to tax and budget reform proposals and realities

Gruber. Chapter 25.

Assignment 1 rewrite out (optional) - due Dec. 8 (5 pm)

Dec 6 Course review and evaluations

Final Exam

T / TR 10:05 am Section Dec 16 (2 - 5 pm)

T / TR 11:45 am Section Dec 12 (9 am -12 pm)