PPS 304 / ECON 338: Economics of the Public Sector
Spring 2017

Class meeting times
T / TH 10:05 pm - 11:20 pm
Location: Rubenstein 153
Important: Attendance will be noted via daily quizzes submitted in class – see below. 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/Sessions/List.aspx?folderID=58ada18d-b484-40a4-ae36-c381335a411d

Instructor Contact Information
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Office hours
M 1:15-3:30 pm, or by appointment

Teaching Assistants

Lead TA:
Puneet Chehal (puneet.chehal@gmail.com)
Office Hours: Wed. 2-3 pm

Other TAs:
Zachary McDade (zach.mcdade@duke.edu)
Office Hours: Tues. 11:30 am -12:30 pm (Sanford Commons)

Please see the office hours PDF for information concerning office hour locations.

Puneet is a PhD student in Public Policy, with a concentration in economics. She will coordinate between TAs and may occasionally participate in lectures.
Zach is a Masters students in Public Policy and has a strong prior economics background.
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, please email the TAs at pps304-tas@duke.edu. The 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 December 24 2016)

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 understanding how key economic concepts and analytical methods can inform the 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 (consistent with my own specific expertise).

The required course readings include textbook readings plus a number of supplementary articles from academic journals or current event news sources. My expectation is that you will come to class prepared to discuss 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 assignment cases. 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 textbook and notes from other 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. <u>Public Finance and Public Policy</u>. 5th Edition. Worth Publishers, 2016.

All other required readings are available through Sakai under course documents according to the date of class. The readings should be done prior to the class meeting. It would be helpful if you inform me if and 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 / grading

As much as possible, we will anonymize assignments and exams prior to grading. This is not always fully possible, but will be done to minimize the risk of bias.

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 / quiz to fill out at the beginning or end of each class session (via smartphone) that will allow me to keep track of who attends class and who is up to date on readings and paying attention to lectures. If you want to be prepared for the surveys, you **should** have completed and understood the readings listed for each class session prior to attending class.

Five "case" assignments (50 percent). These 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 all will include an individual component. **Assignments will be due at the beginning of class and should be turned in using Sakai**; late submissions will only be accepted in truly exceptional circumstances if and only 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.

You may note that the percentages above add up to more than 100. Let me explain. I understand that students' semesters ebb and flow in different ways, and that some times may be particularly difficult for some students. As such, I will drop either the lowest grade on one of the five assignments (so that the assignments add up to 40%), or will drop 10 percentage points from your lowest exam score (so that these will represent 35% rather than 45% of your final grade). You will not choose which of these to drop; I will simply drop the one that is lowest.

Regrade policy. Finally, most of the grading in the course will be done by the TAs. I will review their assessments, but there may be instances where you desire further explanation or disagree with the grade that has been granted. In these cases, you may request a regrade from me; however note the following:

- I will be the one regrading (not the TAs);
- Regardless of whether you receive a higher grade from me, you will keep the grade I have assigned (not the higher of the two);
- We will retain electronic copies of your original submissions;
- In the event that you find a tabulation / addition error, you do not need to request a regrade, but should consult with Puneet and Zach.

Other. I will not circulate grading rubrics prior to assignment submission; I judge that this stifles creativity and learning. So if you feel that directions or expectations for assignments are unclear, please write to the TA listserv. If a question is deemed to require general clarification, this will trigger an explanation via email to the whole class. If it does not, we will respond accordingly. It is **your responsibility** to contact us if you think something requires clarification.

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.

PubPol Internship requirement

From the Sanford School Associate Dean for Academic Programs: A note regarding the PubPol internship requirement: For an internship to count for the PubPol graduation requirement the position must allow the student to apply concepts and skills and knowledge from the PubPol core courses to a public policy problem. When you declare a PubPol major, you will receive information on how to get comprehensive assistance with the internship process.

Detailed schedule

Jan 12 Introduction and overview for the course

Gruber. Chapter 1.

Jan 17 Budget analysis and deficit financing (Or: "How can we tell if our national budget situation is really bad?")

Gruber. Chapter 4.
Other required readings - Recent press articles:
Volcker & Peterson. "Ignoring the Debt Problem" October 21, 2016.
Reuters. "Greece Seeks 'Honest Compromise' in Reform Standoff - Finance Minister"
December 12, 2016.
NY Times. "Panel Seeks Social Security Cuts and Higher Taxes." November 10, 2010.

Assignment 1 (Budget deficit case) out.

Jan 19 Basic theoretical tools for thinking about public investment (normative analysis) (Or "All that stuff you wish you had learned in PPS 303")

Gruber. Chapter 2 (Pp.27-45).

Jan 24 Additional tools of theoretical / empirical analysis (Or: "Wow, this is more complicated than I thought!")

Gruber. Chapter 2 (Pp.43-59) and Chapter 3.

Assignment 1 due.

Jan 26 Theory of externalities and solutions. Example Applications of positive externality theory: Environmental health. (*Guest lecture by Faraz Usmani*).

Gruber. Chapter 5.
Other required readings:
Omer, Saad. "How to Handle the Vaccine Skeptics." NY Times. Feb. 6,2015.
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 (Vaccine case) out.

Jan 31 Applications of positive externality theory: Environmental health (continued)

Feb 2 Applications of negative externality theory: Pollution control

Gruber. Chapter 6. (6.1-6.2)
Other required readings:
Porter. "Earth Isn't Dommed Yet. The Climate Could Survive Trump Policies." NY Times. Nov.29, 2016.
Gilbert E. Metcalf. "Market-based Policy Options to Control U.S. Greenhouse Gas Emissions."
Journal of Economic Perspectives vol 23, No. 2 (Spring, 2009), pp. 5-27.

Feb 7 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
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.

Feb 9 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.

Sep 14 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.

Assignment 3 (Benefit-cost case) out.

Feb 16 Structure of government expenditures (centralized vs. decentralized)

Gruber. Chapter 10.

Feb 21 Introduction to taxation (US/Global)

Gruber. Chapter 18.
Cohen, P. "Study Finds Local Taxes Hit Lower Wage Earners Harder." NY Times. Jan. 13, 2015.

Feb 23 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.

Feb 28 Assignment 3 discussion

Assignment 3 due

Mar 2 Midterm exam

Mar 7 Taxation inefficiencies, taxing social "goods" and "bads"

Gruber. Chapters 20 and 21.
Other required readings - Recent press articles:
Forbes Magazine. "What's Better? A Carbon Tax or Energy Subsidies." Aug. 26, 2012.
Brody, Jane. "Prudent Ways to Fight Childhood Obesity." NY Times. June 22, 2015.

Assignment 4 (Tax case) out

Mar 9 Thinking about the interaction of taxation and behavior

Gruber. Chapter 22.
Other required readings - Recent press articles:
Scheiber & Cohen. "For the Wealthiest, a Private Tax System that Saves them Billions" New
York Times, Dec. 29, 2015.

Mar 14 & 16 Fall break (no class)

Mar 21 Wrap up taxation (& specific examples)

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

Assignment 4 due

Mar 23 Programs for the poor: Theoretical 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.

Mar 28 Programs for the poor: Practical design issues

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.

Assignment 4 due

Mar 30 Theories of social insurance against risk and redistribution across time

Gruber. Chapter 12.

Apr 4 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.

Apr 6 Social insurance: Pensions

Gruber. Chapter 13. (13.1-13.3)
Other required readings:
Feldstein, M. (1999). "Social security pension reform in China." China Economic Review 10: 99-107.

Other optional readings:
Barr, N. (2002). "Reforming pensions: Myths, truths, and policy choices." International Social Security Review 55 (2): 3-36.

Assignment 5 (Social pensions case) out

Apr 11 Health insurance

Gruber. Chapter 15 and 16 (15.1-15.2; 16.1-16.4).
Other required readings:
Blumenthal et al. (2015). "The Affordable Care Act at 5 Years." The New England Journal of Medicine 372(25): 2451-2458.

Apr 13 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.

Assignment 5 due

Apr 18 Education

Gruber. Chapter 11.
Other required readings:

Ladd, H. (2002). "Introduction." Market-Based Reforms in Urban Education.
Harris. "Betsy Devos and the Wrong Way to Fix Schools." NY Times: Nov. 25, 2016.

Apr 20 Return to tax and budget reform proposals and realities (Or "Why reform is so hard")

Gruber. Chapter 25.
Other required readings:
Reuters. "Indian Businesses Turn Sceptical on Modi's Landmark Tax Reform." In: NY Times. July 1, 2015.
Additional reading - TBD
Bowles, E. (2015). "Letter to the Editor: The Risks of Delaying Fiscal Reforms." NY Times. Feb. 11, 2015.

Apr 25 Summary and course evaluations

May 6 Final exam (9 am-12 pm)