

Harvard University
Kennedy School of Government

Jeffrey B. Liebman
Spring 2018

API-102Z
Economic Analysis of Public Policy

Class: Tuesday and Thursday, 10:15am-11:30am, Wexner 436
Review Session: Friday 10:15-11:30

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The Course

This course builds upon the foundation of API-101Z and develops microeconomic tools of analysis for policy problems using a variety of policy applications. The course is focused broadly on evaluating the rationale for government intervention in the economy and evaluating the efficiency, incentive, and distributional effects of government policies. Areas of application include cost-benefit analysis, taxation, income redistribution, health, education, infrastructure, and trade.

Prerequisites

The course presumes that students have prior preparation in microeconomics, typically API-101Z. This Z section assumes the ability to use calculus.

Requirements

The formal course requirements are: completion of daily problems, one policy memo, a midterm exam, and a final exam. Grades will be based 15% on the daily problems, 10% on the memo, 25% on the midterm, and 50% on the final. Assignments are due at the start of class on the days indicated. Late daily problems are not accepted. Late memos carry a penalty of one-third of a grade per day late. Students may skip two daily problems with no penalty.

Readings

Readings or web links to readings are posted on the course web site.

There is no text book for this course. For students looking for a text book that covers much of the material in this class, *Public Finance* by Harvey S. Rosen and Ted Gayer (McGraw-Hill, 2014) or *Public Finance and Public Policy* by Jonathan Gruber (Worth, 2015) are fine choices.

**Schedule
API-102Z
Spring 2018**

T	Jan. 23	Introduction/CB-analysis
Th	Jan. 25	CB Analysis: NPV and Discounting
T	Jan. 30	CB Analysis: Measuring Costs and Benefits
Th	Feb. 1	CB Analysis: Distributional and GE Effects
T	Feb. 6	Tax Policy: Equity-Efficiency Tradeoffs
Th	Feb. 8	Tax Policy: Behavioral Responses to Taxation
F	Feb. 9	Tax Policy: Tax Incidence
T	Feb. 13	Tax Policy: Tax Reform
Th	Feb. 15	Catch up
T	Feb. 20	Review session
Th	Feb. 22	Midterm
T	Feb 27	Welfare Policy I
Th	Mar. 1	Welfare Policy II
F	Mar. 2	Memo due
T	Mar. 6	Principal-Agent Theory/ Government Contracting
Th	Mar. 8	Social Innovation
Spring Break		
T	Mar. 20	Climate Change/Energy Policy/Infrastructure Policy
Th	Mar. 22	Health Care
T	Mar. 27	Health Care
Th	Mar. 29	Behavioral Economics and Public Policy
T	Apr. 3	Education and human capital policy
Th	Apr. 5	Immigration Policy
T	Apr. 10	Trade Policy
Th	Apr. 12	Trade Policy
Wed	May 2	Final Exam (set by registrar and subject to change)

API-102Z: ECONOMIC ANALYSIS OF PUBLIC POLICY ASSIGNMENTS

JANUARY 23: INTRODUCTION

William Nordhaus, "Critical Assumptions in the Stern Review on Climate Change," *Science*, July 13, 2007, 201-202.

JANUARY 25: NET PRESENT VALUE ANALYSIS AND DISCOUNTING

Boardman, Greenberg, Vining, and Weimer, *Cost-benefit Analysis: Concepts and Practices*. (Upper Saddle River, NJ: Prentice Hall, 1996), Chapter 4, 119-158.

Willard Manning, Emmett B. Keeler, et al., "The Taxes of Sin," *Journal of the American Medical Association*, March 17, 1989, vol. 261, no. 11, 1604-1609.

Dalton Conley, "The Cost of Slavery," *New York Times*, February 15, 2003.

POD#1 due at beginning of class.

JANUARY 30: MEASURING COSTS AND BENEFITS

Averill, "Arsenic in Drinking Water," Kennedy School of Government Case Program.

W. Kip Viscusi, John M. Vernon, and Joseph E. Harrington, Jr. "The Emergence of Health, Safety, and Environmental Regulation," and "Valuing Life and Other Nonmonetary Benefits," in *Economics of Regulation and Antitrust* (Cambridge: MIT Press, 2000), chapters 19 and 20, 637-685.

Edward Miguel and Michael Kremer, "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities," *Econometrica*, 74 (2004), 159-217.

POD#2 due at beginning of class.

FEBRUARY 1: INCORPORATING DISTRIBUTIONAL AND GENERAL EQUILIBRIUM EFFECTS

Peter Kemper, David A. Long, and Craig Thorton, "Benefit-Cost Analysis of the Supported Work Experiment," in *The National Supported Work Demonstration* (Madison: University of Wisconsin Press, 1984), chapter 8, 239-285.

Boardman, Greenberg, Vining, and Weimer, *Cost-benefit Analysis: Concepts and Practices*. (Upper Saddle River, NJ: Prentice Hall, 1996), 71-74.

C.H. Johnson Consulting, *Economic Impact Analysis of the Proposed Ballpark for the Boston Red Sox*, 2009.

Sargent, Rob, *Major League Steal: The Economic Folly of Public Subsidies for a New Red Sox Stadium*, MASSPIRG, 2000-03-01.

POD#3 due at beginning of class.

FEBRUARY 6: EQUITY-EFFICIENCY TRADEOFFS

Martin Feldstein, "The Tax Reform Agenda," National Association of Business Economists, 2017.

Paul Krugman, "The Tax-Cut Con" *New York Times Magazine*, September 14, 2003.

Martin Feldstein, "The Case for Dynamic Analysis," *Wall Street Journal*, December 14, 1994.

Laura Tyson, "Dynamic Scoring: Not Ready for Prime Time," *Wall Street Journal*, January 12, 1995.

H. Varian, "Taxation of Electronic Commerce," *Harvard Journal of Law & Technology*, 13 (2000).

POD#4 due at beginning of class.

FEBRUARY 8: BEHAVIORAL RESPONSES TO TAXATION

Martin Feldstein, "The Effects of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform," *Journal of Political Economy* 103 (1995), 551-571.

POD#5 due at beginning of class.

FEBRUARY 9: TAX INCIDENCE

FEBRUARY 13: TAX REFORM

"Recent Tax Reform Proposals," in *The Economic Effects of Comprehensive Tax Reform*, Congressional Budget Office, 1997, pp. 7-22.

Robert E. Hall, "Guidelines for Tax Reform: The Simple, Progressive Value-Added Consumption Tax," in Alan Auerbach and Kevin Hassett, eds, *Toward Fundamental Tax Reform*, (Washington, DC, AEI Press), 2005, pp. 70-80.

Martin Feldstein, "The Tax Reform Legislation of 2017," Remarks at the AEA meetings, January 4, 2018.

POD#6 due at beginning of class

FEBRUARY 15: CATCH UP

FEBRUARY 20: REVIEW SESSION

FEBRUARY 22: MIDTERM

FEBRUARY 27: WELFARE POLICY I

Rebecca M. Blank, "Was Welfare Reform Successful," *Economist's Voice*, March 2006.

Hilary Hoynes, Marianne Page, and Ann Huff Stevens, "Poverty in America: Trends and Explanations," *Journal of Economic Perspectives*, 20(1): 47-68.

Jeffrey B. Liebman, "The Impact of the Earned Income Tax Credit on Incentives and the Income Distribution," *Tax*

Policy and the Economy, 12, 1998.

POD#7 due at beginning of class.

March 1: WELFARE POLICY II

Richard Zeckhauser and Albert L. Nichols, "Targeting Transfers through Restrictions on Recipients," *American Economic Review* 72(2), May 1982, 372-77.

Vivi Alatas, Abhijit Banerjee, Rema Hanna, Benjamin Olken, and Julia Tobias, "Targeting the Poor: Evidence from a Field Experiment in Indonesia," NBER Working Paper 15980, 2010.

Milan Vodopivec, "Introducing Unemployment Insurance to Developing Countries," World Bank Social Protection and Labor Working Paper No. 0907, May 2009.

POD#8 due at beginning of class.

MARCH 2: MEMO DUE

MARCH 6: APPLICATIONS OF PRINCIPAL-AGENT THEORY TO GOVERNMENT CONTRACTING

Office of Management and Budget, "Increasing Competition and Structuring Contracts for the Best Results," Memorandum for Chief Acquisition Officers and Senior Procurement Executives, October 27, 2009.

Jeffrey Liebman and Hanna Azemati. "How Cities Can Improve Their Procurement of Goods and Services." In *Retooling Metropolis*, Manhattan Institute. 37-55, 2017.

POD#9 due at beginning of class.

MARCH 8: SOCIAL INNOVATION

Jeffrey Liebman, "Social Impact Bonds: A Promising New Financing Model to Accelerate Social Innovation and Improve Government Performance," Center for American Progress, February 2011.

Ted Miller, *Nurse-Family Partnership Home Visitation: Costs, Outcomes, and Return on Investment*, January 24, 2013

David L. Olds, Charles R. Henderson, Jr, Robert Tatelbaum and Robert Chamberlin, "Improving the Delivery of Prenatal Care and Outcomes of Pregnancy: A Randomized Trial of Nurse Home Visitation," *Pediatrics* 1986, 77:16-28

Kitzman HJ, Olds DL, Henderson CR Jr, Hanks C, Cole R, Tatelbaum R, McConnochie KM, Sidora K, Luckey DW, Shaver D, Engelhardt K, James D, Barnard K. Effect of prenatal and infancy home visitation by nurses on pregnancy outcomes, childhood injuries, and repeated childbearing: A randomized controlled trial. *Journal of the American Medical Association*, 278:8, 644-652, 1997.

POD#10 due at beginning of class.

Optional additional reading:

<http://govlab.hks.harvard.edu/news>

Jeffrey Liebman and Alina Sellman. *Social Impact Bonds: A Guide for State and Local Governments*. June 2013.

HKS SIB Lab Team, "Social Impact Bonds: Lessons Learned So Far" in *Community Development Investment Review*, Federal Reserve Bank of San Francisco, February 2013.

MARCH 20: GLOBAL CLIMATE CHANGE/ENERGY POLICY/INFRASTRUCTURE POLICY

William Nordhaus, "Reflections on the Economics of Climate Change," *Journal of Economic Perspectives*, Volume 7:4, Fall 1993, pp. 11-25.

William D. Nordhaus, "An Optimal Transition Path for Controlling Greenhouse Gases," *Science*, New Series, Vol. 258, No. 5086 (Nov. 20, 1992), pp. 1315-1319.

William A. Pizer, "Prices vs. Quantities Revisited: The Case of Climate Change," Resources for the Future Discussion Paper 98-02, October 1997.

Nicholas Stern and Chris Taylor, "Climate Change: Risk, Ethics, and the Stern Review," *Science*, July 13, 2007, 203-204.

C. Winston, "Efficient Transportation Infrastructure Policy," *Journal of Economic Perspectives* (1991), 113-127.

POD#11 due at beginning of class.

MARCH 22: HEALTH POLICY I

Alain Enthoven, "The U.S. Experience with Managed Care and Managed Competition," Boston Federal Reserve 2005 Economic Conference.

Kaiser Family Foundation, *Summary of New Health Reform Law*.

Peter Diamond, "Organizing the Health Insurance Market," *Econometrica*, 60 (1992), pp. 1233-1254.

Martin Feldstein and Jonathan Gruber, "A Major Risk Approach to Health Insurance Reform," *Tax Policy and the Economy*, 9 (2005), pp. 103-130.

POD#12 due at beginning of class.

MARCH 27: HEALTH POLICY II

Karen Donelan, et al, "The Cost of Health System Change: Public Discontent in Five Nations," *Health Affairs*, 18(1999): 206-216.

David Cutler, "Equality, Efficiency, and Market Fundamentals: The Dynamics of International Medical-Care Reform," *Journal of Economic Literature*, September 2002, pp. 881-906.

June E. O'Neill and Dave M. O'Neill, "Health Status, Health Care, and Inequality: Canada vs. the U.S." NBER Working Paper 13429, 2007.

John K. Iglehart, "Revisiting the Canadian Health Care System," *New England Journal of Medicine*, 342(2007), pp. 2007-2012.

POD#13 due at beginning of class.

MARCH 29: BEHAVIORAL ECONOMICS AND PUBLIC POLICY

Richard Thaler and Cass Sunstein, "Libertarian Paternalism," *American Economic Review*; May 2003, Vol. 93 Issue 2, pp. 175-179.

Michael Grunwald, "How Obama is Using the Science of Change," *Time Magazine*, April 2, 2009.

Jeffrey Liebman, "Reforming Social Security: Not All Privatization Schemes are Created Equal," *Harvard Magazine*, March/April 2005.

Beshears et al. "The Importance of Default Options For Retirement Savings Outcomes: Evidence from the United States," NBER Working Paper #12009, February 2006.

Optional additional reading:

William Congdon, Jeffrey Kling, and Sendhil Mullainathan, *Policy and Choice: Public Finance through the Lens of Behavioral Economics*, Brookings Institution Press, 2011.

POD#14 due at beginning of class.

APRIL 3: EDUCATION AND HUMAN CAPITAL

James Heckman, "Skill Formation and the Economics of Investing in Disadvantaged Children," *Science*, v.312, June 2006, pp. 1900-1902.

Heritage Foundation, *Long Overdue Head Start Evaluation Shows No Lasting Benefit for Children*, January 14, 2010.

Eric Hanushek, "The Failure of Input-Based Schooling Policies," *Economic Journal* (Feb 2003) 113, pp. F64-F98.

Douglas O. Staiger and Jonah E. Rockoff, "Searching for Effective Teachers with Imperfect Information," *Journal of Economic Perspectives*, Summer 2010.

Optional additional readings:

James Heckman and Dimitriy Masterov, "The Productivity Argument for Investing in Young Children," *Review of Agricultural Economics*, 29:3, 2007

Alan Krueger, "Inequality, Too Much of a Good Thing," in *Inequality in America: What Role for Human Capital Policies* (Benjamin Friedman, ed.), MIT Press, 2004, pp. 1-76.

POD#15 due at beginning of class.

APRIL 5: IMMIGRATION POLICY

George Borjas, "Reframing the Immigration Debate," chapter 1 in *Heaven's Door* (Princeton, Princeton University Press), 1999, 3-18.

George Borjas, "The Economic Benefits from Immigration," chapter 5 in *Heaven's Door* (Princeton, Princeton University Press), 1999, 87-104.

David Card, "Is the New Immigration Really So Bad?," *Economic Journal*, November 2005, F300-F323.

POD#16 due at beginning of class.

APRIL 10 and 12: TRADE POLICY

Douglas Irwin, *Free Trade Under Fire* (Princeton University Press, 3rd edition, 2009), chapter 2.

Gary Clyde Hufbauer and Kimberly Ann Elliot, *Measuring the Costs of Protection in the United States*, Washington DC: Institute for International Economics January 1994, pp. 1 -13.

Virginia Postrel, "What Happened When Two Countries Liberalized Trade? Pain, Then Gain" *New York Times* January 27, 2005

Arvind Panagariya, "Free Trade Skeptics: Wrong Again" *Economic Times of India*, January 25, 2006 .

Paul Krugman, "The Trouble with Trade," *New York Times*, December 28, 2007.

Alan Blinder, "Free Trade's Great, but Offshoring Rattles Me," *Washington Post*, May 6, 2007.

POD#17 due at beginning of class.