ECON 311: Public Economics

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Office Hours: T, 4-5pm, W 10:30-11:30am (Zoom or in-person)   Class Hours: T/Th 11-12:20am
Office: PGill 161   Class Room: Pettengill 162
Course Website: **https://lyceum.bates.edu/course/view.php?id=7400**
OH Link: **https://calendar.app.google/XF36Ujpg9NcJbSD58**

Course Description

The objective of the course is to understand the role that governments play in market economies. We will be interested in addressing questions of why, how and when governments do (and/or should) intervene and in the consequences of government policies. We will start by introducing empirical and theoretical tools and concepts, and then follow up with analysis of externalities, social insurance programs and tax policy.

The class builds on microeconomic foundations, but it will be strongly motivated by actual policies. Significant attention will be devoted to empirical applications. On the theoretical side, we will be interested in both normative questions (what governments should do) and positive ones (what are the implications of what governments actually do).

Course Objectives

After this course is done, you should be able to:

1. Understand the roles of the government in the US (or any market) economy

2. Evaluate and recommend government interventions on both normative and positive grounds using applied econometric research

3. Assess the direct and indirect effects of interventions on economic outcomes (e.g. Pareto efficiency, equity, and efficiency-equity tradeoffs)

4. Understand optimal approaches to finance government interventions and contrast with actual financing

Required Materials

- Course notes, assignments, extra readings, recordings, and all other materials are available on the Lyceum webpage.

- There is one required textbook for this course and one reecomended book that is an accessible background reading.

    - "Public Finance and Public Policy" by Jonathan Gruber (Worth Publishers, 5th edition or higher) – this textbook tracks closely to the course material. The relevant chapters are marked for each week.
    - Taxing Ourselves by Joel Slemrod and Jon Bakija (MIT Press, 2017) is a very accessible background reading for the second part of the course.

Prerequisites

Prerequisites: ECON 255 and ECON 260. The course assumes background in intermediate microeconomics.

Teaching Assistant

There is no teaching assistant for this course.

Grading Policy

The course will have a midterm, final, five written problem sets, reading responses, a policy brief, and a policy presentation. There will be no make-up midterm (final). In the rare and unusual case that an absence can be formally excused, the final (midterm) will account for (50%).

- **20%** of your grade will be determined by a midterm.

- **20%** of your grade will be determined by a final.

- **20%** of your grade will be determined by four out of five written problem sets. You can drop the lowest-scoring problem set.

- **10%** of your grade will be determined by reading responses

- **30%** of your grade will be determined by a policy brief and presentation:

    - **20%** from the policy brief
    - **10%** from the policy presentation

I offer a 2.5% (half a letter grade) bonus for exceptional class participation.

All problem sets will be posted on Lyceum. Problem sets should be submitted online and a hard copy turned in. Working in groups on problem sets is encouraged, but every student has to submit individual solutions in his/her own words – unless otherwise specified.

Midterm will be 10/15. The final will be on 12/11.

Policy presentation and brief

At the end of the semester, you will work in groups of three to present on a current policy topic and write a short policy brief. The presentation and brief will provide an opportunity for you to apply the concepts taught in class to a specific policy context. Your goal is to explain why a policy is needed, critique the current policy, and recommend changes.

The presentation will be 15 minutes long and will be followed by a 10-minute discussion. The presentation will be graded on clarity, depth, and engagement with the class. A successful presentation will:

1. Establish context of the policy issue with relevant statistics and policy description

2. Offer a heuristic explanation of the economic theory related to the policy issue

3. Synthesize the leading empirical research on the policy issue

4. Make a clear and concisely argued policy recommendation

5. Lead a discussion of the policy issue that engages different points of view in the classroom

The policy brief should take a form like those published by the Brookings Institution or by the Stanford Institute for Economic Policy Research. Like these briefs, yours should be a short and informative analysis that brings background and recommendations to policymakers, journalists, and the public. You may choose to write your brief as a group or you may write it separately.

While your brief should be detailed and based on economic theory and empirical evidence, it should not contain technical language or jargon (e.g. "marginal utility"). A good approach is to assume your reader is educated and engaged in the policy world but has taken economics only at the introductory level. While the syllabus may contain readings that directly relate to your topic, you will base your brief primarily on readings that you find on your own. Take cues from the examples at links above for how to properly cite your sources but realize that many of those briefs are written by experts using their own primary research.

This means your brief will require more citation than in the example briefs; be very careful not to plagiarize. Begin your brief by using statistics to motivate readers' interest in your policy and establishing the context for debate. Then, identify and explain two or three criteria that you will use to evaluate either an existing policy itself or the empirical methods used to estimate the effects of a policy.

Apply these criteria to conduct your analysis, making sure that you critically assess the methods used by researchers to arrive at their findings. Finally, conclude with a list of policy recommendations. You may find it useful to use "If..., then..." statements in this list. Please see examples posted on Lyceum. The brief should contain no more than 1800 words of text and contain at least one, but no more than three figures or tables. Your brief will be posted on the class Lyceum page and in a compendium that we informally publish.

Potential policy topics to use, there are more

- Social security reform

- Student loan forgiveness

- Exemption of tips from income tax

- Import tariffs

- Emergency Unemploy-

ment Insurance Systems

- Health care reform

- Optimal degree of progressivity in the income tax system

- Taxes versus permits for greenhouse gas reduction

- Optimal obesity policy

- Subsidies in agriculture

- Corporate tax reform

- Policies to contain urban sprawl

- Sin taxes

- Policies for the reduction of gasoline consumption

- Sex education policies

- Financing of IVF and other fertility treatments

- Abortion access

- Value added taxation

- Estate tax

- Welfare to work

- Charter schools

- Education vouchers

- Teacher quality and student outcomes

- Policies for the education of women in developing countries

- Consumption ("flat") tax

- Funding of sports stadiums

- Equalization of funding across school districts

- "No Child Left Behind"

- Gun control policies

- Optimal ethanol subsidy (or tax)

Reading Response

A written response will be due via Lyceum before the class. Responses will be graded on a pass/fail basis. Exams will draw on material from these summaries. Unless otherwise specified on Lyceum, responses should be no more than one (1) page and should include the following elements:

- A statement of the research question

- Data Description

- Intuitive explanation of the theoretical model and empirical strategy

- response of results

- Discussion of policy implications

Reading responses will be held once or twice a week. These are in-class responses to articles. You will be asked to read an article and respond to a prompt. I will post the responses before class. The responses will be graded on a pass/fail basis.

I will drop the two lowest reading responses in recognition of the fact that sometimes life gets in the way of doing all the readings.

Course Policies

During Class

Please refrain from using computers for anything but activities related to the class. Phones are prohibited as they are rarely useful for anything in the course. Eating and drinking are allowed in class, but please refrain from it affecting the course. Try not to eat your breakfast/lunch in class as the classes are typically active.

Artificial Intelligence

I encourage each of you to make use of artificial intelligence-driven digital assistants, like ChatGPT and Github CoPilot. These tools are not a substitute for your own ingenuity, but instead a complement as they are incredibly useful for tasks like coding or proofreading. Please note during assignments whether and where you used ChatGPT, as you would cite your (human) sources. Furthermore, if you ask generative AI to respond to short answer or essay questions and directly copy and paste that response, you will receive the grade that the AI would have received. In the majority of cases, the AI will not be able to answer the question correctly because it lacks key context from the course.

Attendance Policy

For complete attendance and excused absence policies, please see **https://www.bates.edu/dof/course-attendance-policy-guideline-for-absences/**. Attendance is expected in all lectures. Valid excuses for absence will be accepted before class. In extenuating circumstances, valid excuses with proof will be accepted after class.

Policies on Incomplete Grades and Late Assignments

The instructor, department, or college must authorize an extension. If not authorized, assignments will be accepted for a 50% deduction to the score up to 2 days after the deadline. After this any assignments handed in will be given 0.

End of course: If an extension is not authorized by the instructor, department, or college, an unfinished incomplete grade will automatically change to an F after either (a) the end of the next regular semester in which the student is enrolled (not including short-term), or (b) the end of 12 months if the student is not enrolled, whichever is shorter.

Incompletes that change to F will count as an attempted course on transcripts. The burden of fulfilling an incomplete grade is the responsibility of the student.

Academic Integrity and Honesty

Students are required to comply with the Bates policy on academic integrity in the Code of Student Conduct at `https://www.bates.edu/student-conduct-community-standards/student-conduct/code-of-student-conduct/`. Don't cheat. Don't copy solutions from online repositories of course materials. Don't be that person. Yes, you. You know exactly what I'm talking about. See `https://www.bates.edu/student-conduct-community-standards/student-conduct/academic-integrity-policy/` for a detailed explanation of academic integrity.

Note, cheating includes uploading materials to websites like Chegg, CourseHero, or other online repositories, let alone the copyright infringement that is involved. If you are caught doing this, you will face disciplinary action consistent with the Bates policy.

Accommodations by Zoom

I prefer that all of you attend lecture in person, but I understand that there are sometimes unavoidable conflicts. As such, the course will have an option to tune in via Zoom for those with an excused absence related to health, family, or other unavoidable conflicts/emergencies. If you have a reason you need to attend a lecture via Zoom, please get in touch to explain the situation. If you do not get in touch and attend a lecture via Zoom without approval, I will consider it an absence. Approval can be given after the fact, but I prefer to know about hybrid attendance ahead of time. Several of you have been in touch about this option already and do not need to seek further approval.

Accommodations for Disabilities

Reasonable accommodations will be made for students with verifiable disabilities. In order to take advantage of available accommodations, students must register with the Office of Accessible Education and Student Support (AESS) in Ladd Library G35. For more information on Bates' policy on working with students with disabilities, please see the AESS webpage on Requesting Services (https://www.bates.edu/accessible-education-student-support/requesting-services/how-to-register-for-accommodations/).

Non-Discrimination Policy Bates College provides equality of opportunity in education and employment for all students and employees. Accordingly, Bates College affirms its commitment to maintain a work environment for all employees and an academic environment for all students that is free from all forms of discrimination.

Discrimination based on race, color, religion, creed, sex, national origin, age, disability, veteran status, or sexual orientation is a violation of state and federal law and/or Bates College policy and will not be tolerated. Harassment of any person (either in the form of quid pro quo or creation of a hostile environment) based on race, color, religion, creed, sex, national origin, age, disability, veteran status, or sexual orientation also is a violation of state and federal law and/or Bates College policy and will not be tolerated. Retaliation against any person who complains about discrimination is also prohibited. Bates's policies and regulations covering discrimination, harassment, and retaliation may be accessed at https://www.bates.edu/here-to-help/policies/equal-opportunity-policy/. Any person who feels that he or she has been the subject of prohibited discrimination, harassment, or retaliation should contact the Director of Title IX & Civil Rights Compliance and Title IX Coordinator, Gwen Lexow, at titleix@bates.edu or https://www.bates.edu/here-to-help/make-a-report/.

Accommodations for Families

If you are a parent or guardian of a child, and you are unable to attend class and care for that child for class one day, please be in touch in case you need further accommodations. You are invited to attend the lecture via Zoom or watch it asynchronously if that will make it easier to not miss course material.

Schedule and weekly learning goals

The schedule is tentative and subject to change. The associated learning goals below should be viewed as the key concepts you should grasp after each week, and also as a study guide before each exam, and at the end of the semester. Each exam will test on the material that was taught up until 1 week prior to the exam. The applications in the second half of the semester tend to build on the concepts in the first half of the semester though, so it is still important to at least review those concepts throughout the semester. *Chapter numbers are from Gruber's book. Bolded readings are reading response assignments.*

Week 1, 09/03 - 09/05:   Introduction (Chapter 1)
Problem Set 1 Assigned, due 9/16

- Establish goal of public policy

- Overview of US government finances

Week 2, 09/10 - 09/12:   Microeconomic Theory and Empirical Tools (Chapters 3 and 4)

- First and second fundamental welfare theorems

- Introduce empirical methods to separate causation and correlation

Good readings: Taxing Ourselves, Chapter 1, **Angrist and Pischke (2010)**, Finkelstein and Hendren (2020), Finkelstein and Hendren (2020), Donaldson (2022)

Week 3, 09/17 - 09/19:   Incidence and efficiency cost of government (Chapters 19 and 20)
Problem Set 2 Assigned, due 9/30

- Differentiate statutory and economic incidence

- Calculate deadweight loss

- Evaluate the role of elasticity in determining economic incidence and the cost of taxation

- Contrast partial and general equilibrium incidence of taxation

Good readings: Oates and Schwab (2015), Chetty (2009), Kopczuk and Munroe (2015)

Week 9, 09/24 - 09/26:   Externalities and public goods (Chapters 5 and 6)

- Differentiate externalities from spillovers that are priced by the market

- Compare the market equilibrium with an externality against the Pareto efficient equilibrium

- Evaluate taxes, subsidies, bans, and other policies to manage externalities

Good readings: Andersson (2019), Rudik (2020), Bento et al. (2014), Martinsson et al. (2024), Metcalf and Stock (2023) Gruber and Hungerman (2007), Barreca et al. (2016), Marron and Toder (2014), Duquette (2016), Chay and Greenstone (2005), Knittel and Sandler (2018), Graff Zivin et al. (2023)

Week 5, 10/01 - 10/03: Social Insurance (Chapter 12)
Problem Set 3 Assigned, due 10/13

- Solve for optimal insurance provision

- Define and differentiate moral hazard and adverse selection

- Identify role of government in solving these market failures

Good readings: Miller and Wherry (2019), Chodorow-Reich et al. (2022) Kroft and Notowidigdo (2016), Chetty and Looney (2006), Chetty and Looney (2007), Chetty (2006),

Week 6, 10/08 - 10/10: Major Social Insurance Programs: Unemployment, Disability, and Social Security (Chapters 13 and 14)

- Isolate reasons government is involved in different social insurance markets

- Identify potential moral hazard in each social insurance program

- Characterize tradeoffs balanced by optimal insurance for each major program

Good readings: Ganong et al. (2024), Boone et al. (2021), Coombs et al. (2022), Coombs (2022), Ganong and Noel (2019), Acosta et al. (2023), Schmieder and Von Wachter (2016), French and Song (2014)

Fall Recess, 10/15 - 10/17: Midterm on Tuesday, then rest!
Problem Set 4 Assigned, due 11/04

Week 7, 10/22 - 10/24: Health Insurance (Chapters 15 and 16)

- Identify different health care systems in the United States

- Characterize moral hazard and adverse/advantageous selection in health insurance

Good readings: Einav and Finkelstein (2011), Einav et al. (2013), Einav et al. (2010), Dobkin et al. (2018), Aron-Dine et al. (2013)

Week 8, 10/29 - 10/31: Low-income Support (Chapter 17)

- Calculate implied marginal tax rate from the EITC and evaluate labor supply consequences

- Analyze the labor supply incentives associated with welfare programs

- Evaluate, in-kind transfers, role of targeting in reducing moral hazard of welfare prgraoms

Good readings: Deshpande and Li (2019), **Vivalt et al. (2024)**, Currie and Gruber (1996), Hoynes et al. (2016), Bailey et al. (2020), Besley (1990), Bitler and Hoynes (2016)

Week 9, 11/05 - 11/07:   Taxation in practice & Optimal Taxation (Chapter 18, 21)
Problem Set 5 Assigned, due 12/01

- Recognize the types of taxation and know their relative size in the budget

- Characterize the equity and efficiency tradeoffs in optimal taxation

- Understand role of elasticity in determining optimal taxes that reduce excess burden

Good readings: Taxing Oureslves, Chapter 2, **Zidar (2019)**, Chetty et al. (2009), Feldstein and Taylor (1976), Saez (2010), Mankiw et al. (2009), Feldstein and Taylor (1976) *Be sure to vote if you can!*

Week 10, 11/12 - 11/14:   Capital income and business taxes (Chapters 22-24)
KGC away on 11/14 – class visit from Christine Murray to discuss searching for literature in economics for police analysis

- Evaluate different approaches to and models of capital taxation

- Identify how government taxation can reduce risk through absorbing part of losses and taking part of gains

- Contrast pass-through and realization approaches to taxation

Good readings: Smith et al. (2022), **Saez and Zucman (2020)**, DeBacker et al. (2019), Kopczuk (2015), Chodorow-Reich et al. (2024), Cooper et al. (2016), Gale et al. (2024), Piketty et al. (2013), Guvenen et al. (2023), Scheuer and Slemrod (2021)

Week 11, 11/19 - 11/21:   Behavioral responses, tax compliance and administration (Chapter 21)

- Identify and define forms of Behavioral responses like bunching, tax evasion

- Evaluate the excess burden of non-labor supply responses to taxation (evasion, fringe benefits over salary)

- Evaluate policies to increase fines and probability of detection on tax compliance

Good readings: Taxing Ourselves, Chapter 5, Bergolo et al. (2023), Alstadsæter et al. (2022), Kleven et al. (2011), Feldstein (1999), Alstadsæter et al. (2019), Pomeranz (2015), Hallsworth et al. (2017)

Thanksgiving Recess, 11/26 - 11/28:   Gobble, gobble!

Week 12, 12/03 - 12/05:   Student policy presentations

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