

MICROECONOMIC ANALYSIS OF PUBLIC POLICY
WWS 522
PRELIMINARY (November 2005)

Professor Mark Lopez

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This course is designed around two goals. The first is to increase understanding of the impact that government economic programs have on individual outcomes in the United States, including employment, income, poverty, family structure and wellbeing. The second is to hone your skills in applied microeconomics. We will focus on readings in public finance and labor economics that are germane to policy debates in Washington. Topics to be covered include (i) a framework for tax analysis, including the impact of different taxes on economic efficiency and equity; (ii) labor market interventions, including minimum wages and earned income tax credits; (iii) government welfare programs and welfare reform; (iv) entitlement programs and Social Security. We will explore these issues theoretically and, for each topic, we will discuss recent empirical results that shed light on the impact of government policies. The problem sets will provide you with more experience in analyzing these topics. The midterm exam will be given during class time on the last Wednesday before the midterm break, and the final will be given during the University's final exam period.

Evaluation in the course will be based on problem sets, a midterm, a final exam, a written project that examines the economic dimensions of a policy issue, and classroom participation. Each component will be weighted as follows.

Six Problem Sets	35%
Midterm Examination	20%
Final Examination	20%
Paper Project	25%

All course materials can be reached on blackboard:

https://blackboard.princeton.edu/pucourse/WWS522_S2006.

Readings

All readings are available on blackboard. We will make heavy use of Harvey Rosen's text Public Finance, 6th Edition, Irwin Publishers (2002). It is recommended that you purchase this text at the University Store.

I. A Framework for Tax Analysis

Harvey S. Rosen, Public Finance, 6th Edition, 2002, Irwin Press.
Chapter 12, "Taxation and Income Distribution," 253-281.
Chapter 13, "Taxation and Efficiency," 282-305.

Blinder, Alan and Alan Krueger. 2004. [“What Does the Public Know About Economic Policy, and How Does It Know It?”](#) Industrial Relations Section Working Paper 496, Princeton University.

Simple, Fair, and Pro-Growth: Proposals to Fix America’s Tax System, Report of the President’s Advisory Panel on Federal Tax Reform, November 2005.

Anderson, P. and Levin, P (2000). “Child care and mothers' employment decisions,” in Blank/Card Findings Jobs: Work and Welfare Reform.

II. Market Forces

A. Overview

Farber, Henry S. "Job Loss in the United States, 1981-1999." Industrial Relation Section Working Paper 453.

Hines, James R. Jr., Hilary Hoynes and Alan B. Krueger. 2001. "Another look at whether a rising tide lifts all boats." NBER Working Paper 8412.

Lee, David, 1999. "Wage inequality in the United States during the 1980s: Rising dispersion or falling minimum wage?" Sections I and II, pages 977-88. Quarterly Journal of Economics, August 1999.

Platt, Leah and Henry S. Farber. "What's a dropout to do? Coping with the deterioration of the low-skilled labor market." Industrial Relation Section Working Paper 467.

B. Labor Market Interventions

1. Income taxation

Harvey S. Rosen, Public Finance, 6th Edition, 2002, Irwin Press.
Chapter 16, “Personal Taxation and Behavior,” 373-397.

2. Minimum wages

David Card and Alan B. Krueger, Myth and Measurement: The New Economics of the Minimum Wage, 1995, Princeton: Princeton University Press.

Chapter 1, “Introduction and Overview,” 1-19.

Chapter 2, “Employer Responses to the Minimum Wage: Evidence from the Fast Food Industry,” 20-77.

Note: Since chapter 2 isn’t available on e-reserves, please go to the Stokes Library where there are three copies of Myth and Measurement on reserve. The call number is HD4917.C37 1995. Chapter 3, "Statewide Evidence of the Effect of the 1988 California Minimum Wage," 78-112.

III. Social Programs

A. Income redistribution

Harvey S. Rosen, Public Finance, 6th Edition, 2002, Irwin Press.
Chapter 7, “Income Redistribution: Conceptual Issues,” 136-155.
Chapter 8, “Expenditure Programs for the Poor,” 156-177.

B. Means Tested Transfers in the United States

1. Introduction

Moffitt, Robert. 2002. "Economic effects of means-tested transfers in the U.S." NBER Working Paper 8730, January.

2. Earned Income Tax Credits

Eissa, Nada and Hilary Hoynes. 1998. "The Earned Income Tax Credit and the Labor Supply of Married Couples." NBER Working Paper 6856, December.

Hotz, V. Joseph and John Karl Scholtz. 2002. "The Earned Income Tax Credit." forthcoming in R. Moffitt (ed.) Means tested transfer programs in the U.S., Chicago: University of Chicago Press.

Eissa, Nada and Jeffrey B. Leibman, 1996, "Labor Supply Response to the Earned Income Tax Credit." Quarterly Journal of Economics, 111(2), 605-37.

3. Food Stamp Program

Borjas, George J., 2002. "Food Insecurity and Public Assistance" NBER Working Paper 9236, October.

Currie, Janet. 2002. "U.S. Food and Nutrition Programs," forthcoming in R. Moffitt (ed.) Means tested transfer programs in the U.S., Chicago: University of Chicago Press.

Whitmore, Diane. 2002. "What Are food stamps worth?" Industrial Relation Section Working Paper 468.

4. Temporary Assistance for Needy Families

Bitler, Marianne, Jonah Gelbach, and Hilary Hoynes. "The impact of welfare reform on living arrangements". NBER Working Paper 8784, February 2002.

Blau, Francine, Lawrence Kahn, and Jane Waldfogel. "The impact of welfare benefits on single motherhood and headship of young women: Evidence from the census." NBER Working Paper 9338, November 2002.

Joyce, Theodore, Robert Kaestner and Sanders Korenman, 2002. "Welfare reform and non-marital fertility in the 1990s: Evidence from birth records." NBER Working Paper 9406, December.

Moffitt, Robert A. 2002. "The Temporary Assistance for Needy Families Program," NBER Working Paper 8749, February 2002.

C. Welfare Programs and Labor Supply

Moffitt, Robert, 2002. "Welfare programs and labor supply," NBER Working Paper 9168, September.

D. Social Security

Harvey S. Rosen, Public Finance, 6th Edition, 2002, Irwin Press.

Chapter 9, "Social Insurance I: Social Security and Unemployment Insurance," 178-199.

Krugman, Paul, "Confusions about Social Security." The Economists' Voice, vol 2, issue 1, 2005.

Lazear, Edward P., "The Virtues of Personal Accounts for Social Security." The Economists' Voice, vol 2 Issue 1, 2005.
