

## **WWS 522: Microeconomic Analysis of Domestic Policy**

Princeton University  
Spring 2008  
Wednesdays 7-10p

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### **Overview**

The course begins with economic justifications for government intervention, focusing on market failures. The rest of the course is roughly divided between taxation, spending and regulation, the traditional levers of government policy. Our study of taxation covers income, commodity, capital, sales and property taxes, and examines how each plays a role in raising revenue, correcting market failures, or redistributing income. Our study of spending and regulation will cover such traditional public-economics topics as education, health care, labor-market regulation and social insurance, and will also include more recent work on government policy toward crime, immigration, and the environment.

### **Grades**

Grading will be determined as follows:

Weekly memos and participation	5%
Presentations	10%
Problem sets	20%
Midterm	25%
Final	40%

The topic of each memo will be announced at the end of class and a hard copy will be due at the start of the following class. Students are encouraged to collaborate on problem sets, though everyone must write up his or her own answers.

### **Office hours**

Office hours will be held on Thursdays from 10 to 11am. Please sign up online by going to <https://wass.princeton.edu/> and then searching for my last name.

### **Course materials**

The text for the course is *Public Finance and Public Policy* by Jon Gruber. I will put a few copies on reserve but students in the past found it helpful to have their own text. The papers assigned on the reading list can be found online (usually through JSTOR).

A skeletal version of my lecture slides will be handed out at the beginning of each class for you to have during lectures but will *not* be posted online. If you miss a lecture please get a copy of the notes from a classmate.

## Lecture schedule and readings\*

### February 4: **Role of Government**

- Chapters 1 (all), 5 (all), 6 (pp. 161-167), 7 (all), 9 (pp. 237-244).
- Stieglitz, J. Spring, (1998). "Distinguished Lecture on Economics in Government: The Private Uses of Public Interests: Incentives and Institutions" *The Journal of Economic Perspectives*, Vol. 12 (2), pp.1239-1285.

### February 11: **Taxation**

- Chapters 18-23, and 25.

### February 18: **Local Public Finance: state and local taxation and expenditure**

- Chapter 11.
- Miller, M. (2008). "First, Kill All The School Boards," *Atlantic Monthly Group*.
- Donahue, J. 1997. "Tiebout or not Tiebout," *Journal of Economic Perspectives*, Vol. 11, No. 4, pp.73-82.
- Black, S. 1999. "Do Better Schools Matter? Parental Valuation of Elementary Education," *Quarterly Journal of Economics*, Vol. 114, No. 2, pp. 577-599.

### February 25: **Education Policy**

- Krueger, A. 1999. "Experimental Estimations of Education Production Functions," *Quarterly Journal of Economics*, Vol. 114 (2), pp: 497-532.
- Hoxby, C. 2000. "The Effects Of Class Size On Student Achievement: New Evidence From Population Variation," *Quarterly Journal of Economics*, Vol. 115(4, Nov.), pp: 1239-1285.
- Angrist, Joshua and Victor Lavy. 1999. "Using Maimonodes' Rule To Estimate the Effect of Class Size on Scholastic Achievement," *Quarterly Journal of Economics*, Vol. 114, No. 2, pp. 533-575.
- Kuziemko, I. 2006. "Using Shocks to School Enrollment to Estimate the Effect of School Size On Student Achievement," *Economics of Education Review*, Vol. 25, No. 1, pp. 63-75.
- Figlio, D. and C. Rouse. 2006. "Do Accountability And Voucher Threats Improve Low-Performing Schools?" *Journal of Public Economics*, v90(1-2,Jan), 239-255

### March 4: **Insurance and risk**

- Chapters 15 and 16.
- Cutler, D. 2005. *Your Money or Your Life: Strong Medicine for America's Health Care*, Oxford University Press, (paperback edition).

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\* Chapter assignments all refer to Gruber, J. (2005). *Public Finance and Public Policy*. New York: Worth Publishers.

**March 11:** Mid-term Exam

**March 18:** Spring Break

**March 25:** **Health Care Reform**

- Cutler, D. and S. Reber, 1998, "Paying For Health Insurance: The Trade-Off Between Competition And Adverse Selection," *Quarterly Journal of Economics*, Vol. 113, No 2, pp. 433-466.
- Krueger, A. and I. Kuziemko. 2009. "The Demand for Health Insurance Among Uninsured Americans: Evidence from a Survey Experiment," NBER working paper series.
- Cutler, D. and J. Gruber. 1996. "Does Public Insurance Crowd Out Private Insurance," *Quarterly Journal of Economics*, Vol. 111, No. 2, pp.391-430.
- Finkelstein, A. and R. McKnight. 2008. "What Did Medicare Do? The Initial Impact of Medicare on Mortality and Out of Pocket Medical Spending," *Journal of Public Economics* 92: 1644-1669

**April 1:** **Inequality: Historical and international perspective**

- Chapters 12-13, and 17.
- Autor, D., L. Katz and M. Kearney. 2006. "The Polarization Of The U.S. Labor Market," *American Economic Review*, v96, 189-194.
- Picketty, T. and E. Saez. 2003. "Income Inequality in the United States: 1913–1998." *Quarterly Journal of Economics* 118:1–39.
- Reynolds, J. 2006. "The Top 1% . . . of What? Jim Webb might want to find a new class warfare talking point," Wall Street Journal, (December 17).
- Picketty and Saez' reply on Saez' homepage: [elsa.berkeley.edu/~saez/](http://elsa.berkeley.edu/~saez/)
- Kuziemko, I. 2009. "Dodging up or Dodging Down: Behavioral Responses to the Vietnam Draft by Race and Class," NBER working paper series.

**April 8:** **Social insurance and poverty policy**

- Blank, R. (2000). "Distinguished Lecture on Economics in Government: Fighting Poverty: Lessons from Recent U.S. History," *The Journal of Economic Perspectives*, Vol. 14(2), pp: 3-19.
- Lawrence, F., J. Katz, J. Kling, and J. Liebman. (2001). "Moving to Opportunity in Boston: Early Results of a Randomized Mobility Experiment," *Quarterly Journal of Economics*, Vol. 116, pp: 607-654.
- Wilson, W.J. 1990, *The Truly Disadvantaged: The Inner City, The Underclass and Public Policy*, University of Chicago Press.
- Murray, C. 1984. *Losing Ground: American Social Policy, 1950-1980*, Basic Books.

**April 15:**

**Labor policy, trade, and technological change**

- Borjas, G., R. Freeman and L. Katz. (1996). "Searching for the Effect of Immigration on the Labor Market," *American Economic Review*, Vol. 86, pp: 246-251.
- Card, D. (1990). "The Impact of the Mariel Boatlift on the Miami Labour Market," *Industrial and Labor Relations Review*, Vol. 43(2), pp: 245-257.
- Lee, D. 1999. "Wage inequality in the United States during the 1980s: rising dispersion or falling minimum wage?" *Quarterly Journal of Economics*. Vol. 114, No. 3, pp. 977-1023.

**April 22:**

**Crime and Punishment**

- Levitt, S. (2004). "Understanding Why Crime Fell in the 1990s: Four Factors That Explain the Decline and Six That Do Not," *The Journal of Economic Perspectives*, Vol. 18(1), pp: 163-190.
- Becker, G. (1968). "Crime and Punishment: An Economic Approach," *Journal of Political Economy*, Vol. 76(2), pp: 169-217.
- Lee, D. and J. McCrary. 2005. "Crime, Punishment, and Myopia," NBER Working Paper No. W11491.
- Kuziemko, I. (2007). "Going Off Parole: How the Elimination of Discretionary Prison Release Affects the Social Cost of Crime," NBER Working Paper Series.
- Lochner, L and E. Moretti, 2004. "The Effect of Education on Crime: Evidence from Prison Inmates, Arrests, and Self-Reports," *American Economic Review*, vol. 94(1), pages 155-189, March

**April 29:**

**Environmental Policy**

- Gruber, J. (2005). *Public Finance and Public Policy*, Chapters 6, New York: Worth Publishers, ISBN: 0-7167-8655-9.