

# WWS 525: Microeconomic Analysis of Government Activity

## Spring Term 2009

### Professor Alex Mas

Alex Mas' Office Hours: Tuesdays 1:00-2:30 pm in the Industrial Relations Section, A-level of Firestone Library

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### Course Description

This course focuses on the role of the government in the economy. The aim is to provide an understanding of the reasons for government intervention in the economy, analyzing the benefits of possible government policies, and the response of economic agents to the government's actions. The course covers tax policy, social insurance programs, public goods, environmental protection, and the interaction between different levels of government. Special emphasis is on current policy issues such as social security reform, health care reform, income tax reform, and budget deficits.

Prerequisites: Students are assumed to have taken 511c (or equivalent) and should be comfortable with multivariate calculus.

Course Website: All handouts and announcements will be posted on blackboard.

### Requirements

1) Lectures – Mondays, 7-10 PM.

2) Readings –

- a) Jonathan Gruber, Public Finance and Public Policy, is optional but strongly recommended textbook (the lectures follow the Gruber book)
- b) Most of the other readings can be found using google scholar from a Princeton computer

### Grading

1) Exams:       **Midterm (TBD) 30%**  
                  **Final (TBD) 50%.**

2) **Problem Sets: 4 problem sets 20%.**

**Group work is permitted, but each student must write up and turn in his/her own solutions. All problem sets will be due on Mondays in class, one week after they are assigned (no exceptions).**

## COURSE OUTLINE

1) Introduction to public economics and the U.S. public sector (1 lecture)

Gruber, Chapter 1

Review of microeconomic underpinnings

Gruber, Chapter 2

2) Role of the government I: Externalities (1 lecture)

Gruber, Chapters 5 & 6

Hahn, R., "Economic Prescriptions for Environmental Problems: How the Patient Followed the Doctor's Orders," Journal of Economic Perspectives 1989, p. 95-114.

Manning, W. et al, "The Taxes of Sin: Do Smokers and Drinkers Pay Their Way?," Journal of the American Medical Association, 1989, 1604-9.

Nordhaus, W., "Greenhouse Economics: Count Before You Leap," The Economist, July 7, 1990, p. 21-24.

Winston, C., "Efficient Transportation Infrastructure Policy," Journal of Economic Perspectives, winter 1991

3) Role of the government II: Public Goods (3 lectures)

Basic theory, optimality and pricing

Gruber, Chapter 7

How do we determine the level of public goods?

Gruber, Chapter 9

Local public goods

Gruber, Chapter 10

Kaus, M., "City Limits," The New Republic, May 3, 1993.

Public Provision of Private Goods: Education

Gruber, Chapter 11

Chubb, J. and E. Hanushek, "Reforming Educational Reform," in H. Aaron, ed., Setting National Priorities, 2 13-247.

Friedman, M., Capitalism and Freedom, Chapter 6.

Cost/Benefit Analysis (1 lecture)

Gruber, Chapter 8

4) Role of the government III: Social Insurance – 3 Lectures

Overview

Gruber, Chapter 12

Feldstein, M., “Seven Principles of Social Insurance,” Challenge, Nov. 1976, p. 6-11.

Social Security

Gruber, Chapter 13

Stuerle, E., Retooling Social Security for the 21st Century, Chapters 3 and 5.

Unemployment Insurance

Gruber, Chapter 14

Gruber, Jonathan, “The Consumption Smoothing Benefits of Unemployment Insurance,” American Economic Review 87 (1997), 192-205.

Meyer, Bruce D., “Unemployment Insurance and Unemployment Spells,” Econometrica, Volume 58, Issue 4 (Jul., 1990), 757-782.

Workers Compensation

Gruber, Chapter 14

Meyer, Bruce D., W. Kip Viscusi and David Durbin. "Workers' Compensation and Injury Duration: Evidence from a Natural Experiment," American Economic Review 85 (1995), 322-340.

Summers, L., Some Simple Economics of Mandated Benefits,” American Economic Review, May 1989, p. 177-183

Disability Insurance

Gruber, Chapter 14

Gruber, Jonathan. “Disability Insurance Benefits and Labor Supply,” Journal of Political Economy, 108 (2000), 1162-1183.

## Health Insurance

Gruber, Chapters 15 & 16

Aaron, H., "A Prescription for Health Care," in H. Aaron, ed., Setting National Priorities, p. 249-291.

Cutler, D., "Public Policy for Health Care". NBER Working Paper #5591, May 1996.

Newhouse, Joseph, "Medical Care Costs: How Much Welfare Loss?", Journal of Economic Perspectives, Summer 1992, p. 3-21.

## 5) Taxation and Redistribution I: Commodity Taxation – 4 Lectures

Gruber, Chapters 18, 19 & 20

Evans, William N., Jeanne Ringel and Diana Stech, "Tobacco Taxes and Public Policy to Discourage Smoking," 1999, *Tax Policy and the Economy: Vol. 13*, Edited by James Poterba, Cambridge, MA: National Bureau of Economic Research

Chetty, Raj, Adam Looney and Kory Kroft, "Salience and Taxation: Theory and Evidence from a Field Experiment at a Grocery Store," Forthcoming, American Economic Review.

## Taxation and Redistribution II: Individual Income Taxation

### Theory and Background

Gruber, Chapter 21

Pechman, J., "Tax Reform: Theory and Practice," Journal of Economic Perspectives, Summer 1987, p. 11-28.

### Welfare programs

Gruber, Chapter 17

Friedman, M., Capitalism and Freedom, Chapter 10, p. 161-166J

Murray, C., Losing Ground, Chap 12-13.

Ellwood, D., and L. Summers, "Poverty in America: Is Welfare the Answer or the Problem?," in Danziger and Weinberg, eds., Fighting Poverty, Chapter 4.

### Taxation and Labor Supply

Gruber, Chapter 21

Feldstein, Martin, "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act," Journal of Political Economy, 103 (1995), 551-572.

## The Tax Base

Gruber, Chapter 18

Metcalf, G., "Value Added Taxation: A Tax Whose Time Has Come?," Journal of Economic Perspectives, Winter 1995, p. 121-140.

The number of lectures per topic is approximate. Some topics will take longer than the time allotted. As the semester unfolds, we will adjust the times, but they are provided to give you a sense of the timing.