WWS 525: Microeconomic Analysis of Government Activity

Spring Term 2015

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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 and costs of possible government policies, and the response of economic agents to the government's actions. The course covers education, labor, and tax policy, social insurance programs, public goods, environmental protection, and the interaction between different levels of government.

Course materials

I assign chapters from Public Finance and Public Policy by Jon Gruber as background readings, though I will deviate substantially from these chapters in class. Chapters refer to the third edition. All the papers assigned on the reading list can be found online on the course website or on the provided links.

Grades and Assignments

Grading will be determined as follows:

Class participation 15%

Problem sets 30%

Midterm 25%

Final 30%

The midterm will be an in-class exam and the final is to be determined.

There will be five problem sets assigned throughout the course. Students may collaborate on problem sets, though everyone must write up his or her own answers.

Office hours

Office hours will be held on Fridays from 10am to 12:00pm.
Course Outline:

Notes:

1. 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.

2. Required readings are denoted “Readings for Class.” I have also included additional background readings that are either related to the topic, of interest, or useful references. These are optional. However, I may discuss this material in class from time to time. You are responsible for the required readings and anything I discuss in class. Beyond that it is up to you to determine how much more you want to read.

February 4-11: Role of government in the economy, market failure, regulation, and cost-benefit analysis

Background Reading on The Role of Government and Tools: Gruber, Chapters 1-3
[Note: This is important background material, which I will assume knowledge of, but not spend much time on much of this in class. Much of this you will have already covered in other courses. You can spread out this reading over the first two weeks.]

Readings for Class

• Gruber chapters 5, 6, and 8
• Sunstein, Cass. 2013. “The Real World of Cost-Benefit Analysis: Thirty-Six Questions (and Almost as Many Answers)” [Stylized scenarios highlighting typical problems encountered in “real-world” cost-benefit analysis; this piece is useful as shedding light on some of the nuances of benefit-cost analysis]
• Glaeser, Edward. “Is High Speed Rail a Good Investment (three articles in a series):

Background Reading

• Boardman, Greenberg, and Weimer, “Cost-Benefit Analysis”, Chapters 4-6 (note: If you don’t have background with discounting cash flows make sure to read chapter 6)

February 11: Public Goods and Local Public Finance

Readings for Class

• Gruber Chapters 10, 23 (only pp. 694-698).
• Rosen and Gayer Chapter 4 (available on Blackboard)

Background reading

February 18-25: Human Capital and Income Inequality

Readings for Class

•Autor, David (2014), “Skills, education, and the rise of earnings inequality among the other 99 percent”, *Science*

Background Readings


February 25: Income Inequality + Welfare Programs

• Gruber, Chapter 17

Background Readings: 


**March 4: Welfare + Minimum Wage**

**Readings for Class**

**Minimum Wage**


**Background Reading**

• Rothstein, Jesse. The Unintended Consequences of Encouraging Work: Tax Incidence and the EITC. Center for Economic Policy Studies, Princeton University, 2008.

**March 11: Midterm Exam**

**March 18: Spring Break**

**March 25-April 1: Taxation**

**Tax Incidence**

**Readings for Class**

• Gruber chapters 18-19
• Raj Chetty lecture notes [Blackboard, slides 4-66].

**Background Reading**

Taxation and Economic Efficiency (commodity and income taxes)

Readings for Class

• Gruber Chapter 20
• Raj Chetty lecture notes [Blackboard]

Background Readings:

• Saez, Slemrod, and Giertz (2010, (http://elsa.berkeley.edu/~saez/saez-slemrod-giertzJEL10final.pdf)

April 8-15: Social Insurance and Mandates

Readings for Class

Background

• Gruber Chapter 12, 14-15

Adverse Selection and Moral Hazard in Insurance Markets


Unemployment Insurance


Disability Insurance


Background Readings:

April 22: Savings Policy

Readings for Class

• Gruber chapter 13, 22

April 29: [TBD/Buffer/Review]