

NYU Wagner School of Public Service
UPADM-GP140 The Economics of Public Policy
Spring 2015

This course analyzes the impact of public policy on the allocation of resources and the distribution of income in the economy. You will learn how to use the tools of microeconomics and empirical analysis to answer these questions:

- When should the government intervene in the economy?
 - How might the government intervene?
 - What are the effects of those interventions on economic outcomes?
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Class time: Tuesday 2:00 - 4:45pm
25 West 4th Street, C-20

Instructor: Professor Sewin Chan
Office hours: Puck 3041, Mondays 2:30 – 3:30pm
Email: sewin.chan@nyu.edu
Phone: 212.998.7495

Teaching assistant: Neha Hridaya
Email: neha.hridaya@nyu.edu

Course administrator: Shannon Deere
Puck 3rd floor
Email: shannon.deere@nyu.edu
Phone: 212.998.7417

Prerequisite

- ECON-UA2 Introduction to Microeconomics, or equivalent. AP/IB/A-level equivalency is according to the Economics Department's policy on advanced standing.

This course requires a working knowledge of the material in ECON-UA2. It is your responsibility to review that material in advance of taking this course.

Course Sequencing for the Public Policy Major

Students in the Public Policy major are strongly advised to take UPADM-GP 101 Politics of Public Policy before or concurrently with this course.

Website and Email

The course website is available on NYU Classes (<http://newclasses.nyu.edu>) All announcements and documents are posted there, and email will be sent using that system.

Class Preparation

- Readings: All readings should be completed *before* class. The required textbook is Jonathan Gruber, *Public Finance and Public Policy*, 4th edition, 2013. Using another edition of the required text is not recommended and at your own risk. There will be additional readings each week, posted on the class website.
- Lecture notes: These will be posted on the website the day before class. Bring a copy of these to class to facilitate note taking.

Classroom Conduct

- Please make every effort to arrive on time.
- Each class is two parts (of varying length) and we will take a 10 minute break between them. Once each part has started, you are expected to remain seated during the entire part. If you know you need to leave early, please tell me before class begins.
- Please turn off or mute all electronic devices. Do not use electronic devices for anything other than note taking.
- Audio and/or visual recording of class is not permitted without my explicit written authorization and notification of other students in the class.

Course Requirements and Grades

Grades will be calculated according to the distribution below. No extra credit will be given under any circumstances.

- Class participation and discussion (10%): Completing the readings before each class is essential to being able to discuss them intelligently in class.
- Problem sets (14%): The eight problem sets are an integral part of the course. They will help you learn how to use the tools of economics to analyze public policy issues and are designed to strengthen your grasp of the material presented in class and in the text. You will receive full credit for a problem set if it is 100% complete and submitted on time at the beginning of class. If you cannot attend class on a day that a problem set is due, you may email a legible copy to the teaching assistant in advance of the time it is due. Late problem sets will not be accepted under any circumstances. I will drop your lowest problem set score in computing your problem set grade and thus each is worth 2%.
- Policy memo (16%): The policy memo may be completed individually or in teams of two. Instructions for the memo will be provided 4 weeks before it is due. Late memos will be accepted but will be penalized by one partial letter grade (e.g. from A- to B+) per day late.
- Quizzes (60%): There will be four quizzes that test your grasp of the course material up to and including the previous class. No notes or electronic devices may be used apart from a simple calculator that *only* performs basic arithmetic. To minimize the impact of a poor performance on any one quiz, I will drop your lowest score in calculating the final grade. Thus, each quiz is worth 20%. If you miss one quiz for any reason, that score will be the one that is dropped. There will be no makeup quizzes under any circumstances. Mark the dates on your calendar now.

Students with Disabilities

Students requiring accommodations should share their documentation from the Moses Center with me within the first two weeks of class.

Academic Integrity

You are expected to adhere to high standards of intellectual and academic integrity. These standards include the following specific behaviors:

- Problem sets: Students are encouraged to work in groups, but the final write-up of problem sets must be done individually.
- Policy memo: Plagiarism will not be tolerated. In the case of teams, both members must contribute to the joint effort and there must be no free-riding.
- Quizzes: These must be the sole work of the individual student. Cheating is unacceptable.

Violations of these standards will automatically result in failure of the course.

Class Schedule

The dates of quizzes and the due dates for all assignments are shown below. The topics and their pacing may be modified, as needed.

	Class date	Due in class	Part one	Part two
1	27 Jan		Course introduction, Economic analysis tools	Empirical analysis tools
2	03 Feb	Problem set	Introduction to tax policy	The equity implications of taxation
3	10 Feb	Problem set	Tax inefficiencies and optimal taxation	Tax incidence in the U.S.
4	17 Feb		Quiz 1	The effect of taxes on labor supply
5	24 Feb	Problem set	Taxes on savings	Wealth taxes
6	03 Mar	Problem set	Corporate taxation	Tax reform
7	10 Mar		Quiz 2	Government budgets and deficit financing
	17 Mar		Spring Break	
8	24 Mar	Policy memo*	Externalities	Public goods
9	31 Mar	Problem set	State and local governments	Adverse selection and moral hazard
10	07 Apr	Problem set	Social insurance	Social Security
11	14 Apr		Quiz 3	Unemployment and disability programs
12	21 Apr	Problem set	Health economics	Medicare and Medicaid
13	28 Apr	Problem set	The distribution of income	Programs to alleviate poverty
14	05 May		Quiz 4	Recent policy ideas

*An automatic extension is provided to the end of this week. Late penalties begin at 12:01am Monday 30th March, 2015.

Course Outline

The readings listed here may be updated over the semester. Additional readings (including newspaper articles) will be posted to the website. Unless noted, all readings are required and should be completed *before* class.

Class 1: Course introduction, economic analysis tools and empirical analysis tools

Gruber: (1) Why Study Public Finance?, (2) Theoretical Tools of Public Finance, (3) Empirical Tools of Public Finance, including appendix.

Class 2: Introduction to tax policy and the equity implications of taxation

Class 1 problem set due at the start of class.

Gruber: (18) Taxation in the United States and Around the World, (19) The Equity Implications of Taxation: Tax Incidence, including appendix.

Piketty, Thomas and Nancy Qian. 2009. "Income Inequality and Progressive Income Taxation in China and India, 1986–2015." *American Economic Journal: Applied Economics* 1(2): 53-63.

Class 3: Tax inefficiencies, optimal taxation, and tax incidence in the U.S.

Class 2 problem set due at the start of class.

Gruber: (20) Tax Inefficiencies and Their Implications for Optimal Taxation.

Piketty, Thomas, and Emmanuel Saez. 2007. "How Progressive is the U.S. Federal Tax System? A Historical and International Perspective" *Journal of Economic Perspectives* 21(1).

Brown, Samuel, William G. Gale, Adam Looney. 2012. "On the Distributional Effects of Base-Broadening Income Tax Reform" Tax Policy Center Research Report.

Class 4: The effect of taxes on labor supply

Quiz 1 will be held during part one of class.

Gruber: (21) Taxes on Labor Supply.

Class 5: Taxes on savings and wealth taxes

Class 4 problem set due at the start of class.

Gruber: (22) Taxes on Savings, (23) Taxes on Risk Taking and Wealth.

Benartzi, Shlomo, and Richard Thaler. 2007. "Heuristics and Biases in Retirement Savings Behavior" *Journal of Economic Perspectives*, 21(3): 81–104.

Class 6: Corporate taxation and tax reform

Class 5 problem set due at the start of class.

Gruber: (24) Corporate Taxation, (25) Fundamental Tax Reform.

Kleven, Henrik Jacobsen. 2014. "How Can Scandinavians Tax So Much?" *Journal of Economic Perspectives*, 28(4): 77-98.

Class 7: Government budgets and deficit financing

Quiz 2 will be held during part one of class.

Gruber: (4) Tools of Budget Analysis.

Ball, Laurence and N. Gregory Mankiw. 1995. "What do budget deficits do?" in *Budget Deficits and the Debt: Issues and Options*, Federal Reserve Bank of Kansas City.

Class 8: Externalities and public goods

Policy memo due by the end of this week (midnight on Sunday).

Gruber: (5) Externalities: Problems and Solution, (7) Public Goods.

Class 9: State and local governments, adverse selection and moral hazard

Class 8 problem set due at the start of class.

Gruber: (10) State and Local Government Expenditures, (12) Social Insurance.

Class 10: Social insurance and Social Security

Class 9 problem set due at the start of class.

Gruber: (13) Social Security

Chan, Sewin. 2012. "The Fiscal Challenge of an Aging Population in the U.S." *The Oxford Handbook of Work and Aging*. Oxford University Press.

Class 11: Unemployment and disability programs

Quiz 3 will be held during part one of class.

Gruber: (14) Unemployment Insurance, Disability Insurance and Workers' Compensation, including appendix.

Class 12: Health economics, Medicare and Medicaid

Class 11 problem set due at the start of class.

Gruber: (15) Health Economics and Private Health Insurance, (16) Medicare, Medicaid, and Health Care Reform.

Class 13: The distribution of income and programs to alleviate poverty

Class 12 problem set due at the start of class.

Gruber: (17) Income Distribution and Welfare Programs

Meyer, Bruce D., and James X. Sullivan. 2012. "Identifying the Disadvantaged: Official Poverty, Consumption Poverty, and the New Supplemental Poverty Measure." *Journal of Economic Perspectives*, 26(3): 111-36.

Class 14: Recent policy ideas

Quiz 4 will be held during part one of class.

Readings to be added.