

# **Topics in Applied Economics II: Public Economics**

**2020-2021 Academic Year**

**Master of Research in Economics, Finance and Management**

## **1. Description of the subject**

- Topics in Applied Economics II Code: 32087
- Total credits: 3 ECTS Workload: 75 hours
- Term: 3rd
- Type of subject: Optative
- Department of Economics and Business
- Teaching team: Rodrigo Carril

## 2. Teaching guide

### ◉ **Course description**

This course focuses on selected topics in public economics, specifically concerning government expenditures. We will start by exploring the economic rationale for, the economic effects of, and the optimal design of social insurance programs. We will use this framework to study specific applications, including unemployment insurance, public health insurance, and pension systems. We will then cover additional expenditure topics such as economic stimulus and government procurement.

As an applied microeconomics class, students are expected to have some previous knowledge of graduate-level microeconomics and econometrics. Additionally, when reviewing some of the most recent research in each of the discussed topics, we will emphasize and critically discuss the frontier research methods used in public economics. This should make the class highly complementary with advanced courses offered in other related fields, such as labor economics, gender economics, political economy, and development.

### ◉ **Intended audience and methodology**

This course is mainly intended for MRes students who want to specialize and do their own research in public economics or a related applied microeconomics field. The course is also suitable for students in the Barcelona GSE terminal master's program who have an interest in public economics or related applied fields. While the lectures and readings will be the same for all enrolled students, there will be two evaluation tracks (see below) to accommodate students with different goals.

The course is organized around ten lectures over five weeks. Attendance and participation are critical and required. I expect that students will come to class prepared to actively discuss the topic of the lecture, having read the suggested material beforehand. Lectures will typically provide some general conceptual framework that organizes how economists think about the topic. Then we will often review a few "classic" empirical papers on the subject before quickly moving to recent frontier applications, which we will assess critically.

The purpose of this structure is to allow students to get introduced to the relevant literature on each topic. The critical discussion should allow students who want to do their own research, to identify open questions and inspire new

projects that can be feasibly executed by them. The course should provide all students with the necessary tools to critically assess the relevant empirical evidence on public policy topics.

### • **Assessment and Grading System**

There will be two assessment tracks. Track A is designed for students who want to produce their own research. Track B is designed for students who want to apply the course material to the critical analysis of public policies. MRes students have to follow Track A, while other students may freely choose either Track A or Track B. More details on each of the grading components will be communicated later.

#### **Track A:**

- Class participation (15%). Students should come to lectures ready to participate in discussions about the topic covered that day. This will typically involve some assigned reading beforehand.
- “Problem Set” Track A (35%). Students will work at home on assigned exercises. It will be based on recent research papers, and may include simulating a referee report, replicating a subset of the empirical findings, discussing conceptual issues, and/or proposing extensions to the paper.
- Research proposal (50%). Involves a preliminary one-page proposal, an interim proposal, and a full final proposal. You will get feedback on each of them. The main goal is that you can feasibly turn this into a full research paper after finishing the course.

#### **Track B:**

- Class participation (15%): Students should come to lectures ready to participate in discussions about the topic covered that day. This will typically involve some assigned reading beforehand.
- “Problem Set” Track B (35%). Students will work at home on assigned exercises. It may involve solving conceptual problems, replicating a subset of the empirical findings in a recent research paper, and/or critically discussing their methodology and findings.

- Policy report (50%): You will write a report on a public policy or government program of your choice. You can choose the country where this policy or program takes place. The report should provide some background on the policy or program, a review of the relevant literature on the topic with the key insights that you obtain from it, a set of informed policy recommendations, and a method for evaluating the impact of your proposed changes.

• **Course Contents (number of lectures on each topic TBD)**

- I. Introduction**
- II. Rationales for Government Intervention**
- III. Optimal Social Insurance**
- IV. Unemployment Insurance**
- V. Public Health Insurance**
- VI. Retirement/Pensions**
- VII. Fiscal Stimulus**
- VIII. Government Procurement**

## ◉ Readings

The following is a *\*preliminary\** and long list of references for the topics covered in class. Required readings will be communicated at a later date and may involve other references not listed here.

### I. Introduction and Rationales for Government Intervention

- Akerlof, G. A. (1970). The Market for “Lemons”: Quality Uncertainty and the Market Mechanism. *The Quarterly Journal of Economics*. <https://doi.org/10.2307/1879431>
- Chiappori, P.-A., & Salanie, B. (2000). Testing for Asymmetric Information in Insurance Markets. *Journal of Political Economy*, 108(1), 56–78. <https://doi.org/10.1086/262111>
- Diamond, P. (2004) “Social Security” Presidential Address to the AEA annual meetings, January 2004, *American Economic Review*, March 2004.
- Einav, L., & Finkelstein, A. (2011). Selection in Insurance Markets: Theory and Empirics in Pictures. *Journal of Economic Perspectives*. <https://doi.org/10.1257/jep.25.1.115>
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- Einav, L., Finkelstein, A., & Schrimpf, P. (2010). Optimal Mandates and the Welfare Cost of Asymmetric Information: Evidence From the U.K. Annuity Market. *Econometrica*, 78(3), 1031–1092. <https://doi.org/10.3982/ECTA7245>
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- Finkelstein, A., & McGarry, K. (2006). Multiple dimensions of private information: Evidence from the long-term care insurance market. *American Economic Review*. <https://doi.org/10.1257/aer.96.4.938>
- Finkelstein, A., & Poterba, J. (2004). Adverse Selection in Insurance Markets: Policyholder Evidence from the U.K. Annuity Market. *Journal of Political Economy*. <https://doi.org/10.1086/379936>
- Hendren, N. (2013). Private Information and Insurance Rejections. *Econometrica*, 81(5), 1713–1762. <https://doi.org/10.3982/ECTA10931>
- Landais, C., Nekoei, A., Nilsson, P., Seim, D., & Spinnewijn, J. (2020). Risk-Based Selection in Unemployment Insurance: Evidence and Implications. Working Paper. <http://econ.lse.ac.uk/staff/clandais/cgi-bin/Articles/selectionUI.pdf>
- Rothschild, M., & Stiglitz, J. (1976). Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information. *The Quarterly Journal of Economics*. <https://doi.org/10.2307/1885326>

## II. Optimal social insurance and unemployment insurance

- Baily, M. (1978). Some Aspects of Optimal Unemployment Insurance," *Journal of Public Economics* 10, 379-402.
- Chetty, R. (2006). A General Formula for the Optimal Level of Social Insurance. *Journal of Public Economics*. November 1879-1901.
- Chetty, Raj & Amy Finkelstein. (2013). Social Insurance: Connecting Theory to Data. *Handbook of Public Economics*, Vol. 5: 111-193.
- Chetty, R., & Looney, A. (2006). Consumption smoothing and the welfare consequences of social insurance in developing economies. *Journal of Public Economics*. <https://doi.org/10.1016/j.jpubeco.2006.07.002>
- Cullen, J. B., & Gruber, J. (2000). Does Unemployment Insurance Crowd out Spousal Labor Supply? *Journal of Labor Economics*. <https://doi.org/10.1086/209969>
- Daniel, S., & Von Wachter, T. (2009). Job displacement and mortality: An analysis using administrative data. *Quarterly Journal of Economics*. <https://doi.org/10.1162/qjec.2009.124.3.1265>
- Feldstein, M. (1976). Temporary Layoffs in the Theory of Unemployment. *Journal of Political Economy*. <https://doi.org/10.1086/260491>
- Feldstein, M. (1978). The Effect of Unemployment Insurance on Temporary Layoff Unemployment. *The American Economic Review*, 68(5), 834–846. Retrieved from <http://www.jstor.org/stable/1811316>
- Feldstein, M., & Poterba, J. (1984). Unemployment insurance and reservation wages. *Journal of Public Economics*, 23(1), 141–167. [https://doi.org/https://doi.org/10.1016/0047-2727\(84\)90070-7](https://doi.org/https://doi.org/10.1016/0047-2727(84)90070-7)
- Finkelstein, A. & Hendren, N. Forthcoming. Welfare Analysis Meets Causal Inference. *Journal of Economic Perspectives*.
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- Kolsrud, J., Landais, C., Nilsson, P., & Spinnewijn, J. (2018). The optimal timing of unemployment benefits: Theory and evidence from Sweden. *American Economic Review*. <https://doi.org/10.1257/aer.20160816>
- Kroft, K., & Notowidigdo, M. J. (2016). Should unemployment insurance vary with the unemployment rate? Theory and evidence. *Review of Economic Studies*. <https://doi.org/10.1093/restud/rdw009>

- Landais, C., Michailat, P., & Saez, E. (2018). A macroeconomic approach to optimal unemployment insurance: Theory. *American Economic Journal: Economic Policy*. <https://doi.org/10.1257/pol.20150088>
- Meyer, B. D. (1990). Unemployment Insurance and Unemployment Spells. *Econometrica*, 58(4), 757–782. <https://doi.org/10.2307/2938349>
- Schmieder, J. F., von wachter, T., & Bender, S. (2012). The effects of extended unemployment insurance over the business cycle: Evidence from regression discontinuity estimates over 20 years. *Quarterly Journal of Economics*. <https://doi.org/10.1093/qje/qjs010>
- Schmieder, J.F. & von Wachter, T. (2017). The Effects of Unemployment Insurance Benefits: New Evidence and Interpretation. *Annual Review of Economics*.
- Shavell, S., & Weiss, L. (1979). The Optimal Payment of Unemployment Insurance Benefits over Time. *Journal of Political Economy*. <https://doi.org/10.1086/260839>
- Shimer, R., & Werning, I. (2007). Reservation wages and unemployment insurance. *Quarterly Journal of Economics*. <https://doi.org/10.1162/qjec.122.3.1145>
- Spinnewijn, J. (2015). Unemployed but optimistic: Optimal insurance design with biased beliefs. *Journal of the European Economic Association*. <https://doi.org/10.1111/jeea.12099>
- Topel, R. (1983). On layoffs and unemployment insurance. *American Economic Review*. <https://doi.org/10.1126/science.151.3712.867-a>

### III. Public health insurance

- Abaluck, J., & Gruber, J. (2011). Choice Inconsistencies among the Elderly: Evidence from Plan Choice in the Medicare Part D Program. *American Economic Review*, 101(4), 1180–1210. <http://www.aeaweb.org/articles?id=10.1257/aer.101.4.1180>
- Almond, D., Doyle, Jr., J. J., Kowalski, A. E., & Williams, H. (2010). Estimating Marginal Returns to Medical Care: Evidence from At-Risk Newborns. *Quarterly Journal of Economics*. <https://doi.org/10.1162/qjec.2010.125.2.591>
- Arrow, K. (1963). Uncertainty and the Welfare Economics of Medical Care Kenneth. *American Economic Review*, 53(5), 941–973. <https://doi.org/10.1215/03616878-26-5-851>
- Aron-Dine, A., Einav, L., & Finkelstein, A. (2013). The RAND Health Insurance Experiment, Three Decades Later. *Journal of Economic Perspectives*. <https://doi.org/10.1257/jep.27.1.197>
- Cabral, M., Geruso, M., & Mahoney, N. (2018). Do larger health insurance subsidies benefit patients or producers? evidence from medicare advantage. *American Economic Review*. <https://doi.org/10.1257/aer.20151362>
- Cabral, M., & Mahoney, N. (n.d.). Externalities and Taxation of Supplemental Insurance: A Study of Medicare and Medigap. *American Economic Journal: Applied Economics*, (Forthcoming). <https://doi.org/10.2139/ssrn.2372163>

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- Clemens, J., & Gottlieb, J. D. (2017). In the Shadow of a Giant: Medicare's Influence on Private Physician Payments. *Journal of Political Economy*. <https://doi.org/10.1086/689772>
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- Cutler, D. M., McClellan, M., Newhouse, J. P., & Remler, D. (1998). Are medical prices declining? Evidence from heart attack treatments. *Quarterly Journal of Economics*. <https://doi.org/10.1162/003355398555801>
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- Doyle, J. J. (2011). Returns to local-area health care spending: Evidence from health shocks to patients far from home. *American Economic Journal: Applied Economics*. <https://doi.org/10.1257/app.3.3.221>
- Dranove, D., Kessler, D., McClellan, M., & Satterthwaite, M. (2003). Is More Information Better? The Effects of "Report Cards" on Health Care Providers. *Journal of Political Economy*. <https://doi.org/10.1086/374180>



- Duggan, M. (2000). Hospital ownership and public medical spending. *Quarterly Journal of Economics*. <https://doi.org/10.1162/003355300555097>
- Duggan, M. (2004). Does contracting out increase the efficiency of government programs? Evidence from Medicaid HMOs. *Journal of Public Economics*. <https://doi.org/10.1016/j.jpubeco.2003.08.003>
- Duggan, M. G. (2005). Does Medicaid Pay Too Much for Prescription Drugs? A Case Study of Atypical Anti-Psychotics. *Journal of Health Economics*, 24(1), 1–31. <https://doi.org/10.3386/w9626>
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#### **IV. Retirement and pension systems**

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