

TOPICS IN APPLIED ECONOMICS II: PUBLIC ECONOMICS

2022-2023 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, disability insurance, public health insurance, and pension systems. Time permitting, 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, political economy, development economics, gender economics, etc.

• Intended audience and methodology

This course is mainly intended for MRes/PhD students who want to specialize and do their own research in public economics or a related applied microeconomics field. The course welcomes students from the BSE terminal master's program who have an interest in public economics or related applied fields.

The course is organized around ten lectures. 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**

The class grade is given by three components:

- 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.
- 2 "Problem Sets" (35%). Students will work at home on assigned exercises, which may include solving conceptual problems, simulating a referee report, replicating a subset of the empirical findings of a paper, discussing conceptual issues, and/or proposing extensions to paper.
- Final Assignment (50%). For the final assignment, there will be two possible activities: (a) a research proposal, designed for students who want to produce their own research; or (b) a policy report, designed for students who want to apply the course material to the critical analysis of public policies. MRes students must choose a research proposal, while other students may freely choose between the two options.

• **Course Contents**

- I. **Introduction**
- II. **Social Insurance: Rationale and Optimal Design**
- III. **Unemployment Insurance**
- IV. **Disability Insurance**
- V. **Public Health Insurance**
- VI. **Retirement/Pensions**
- VII. **Fiscal Stimulus (may not cover due to time constraints)**
- VIII. **Government Procurement (may not cover due to time constraints)**

◉ Readings

The following is a *preliminary* and long list of references for the topics covered in class. Required readings will be communicated ahead of lecture 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>
- Einav, L., Finkelstein, A., & Cullen, M. R. (2010). Estimating welfare in insurance markets using variation in prices. *Quarterly Journal of Economics*. <https://doi.org/10.1162/qjec.2010.125.3.877>
- 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>
- Feldstein, M. (2005). “Rethinking Social Insurance” Presidential Address to the AEA annual meetings, January 2005, *American Economic Review*, March 2005.
- 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>
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- 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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- 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>
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- 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>
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- 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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- 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>
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- 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>
- Duggan, M., Goda, G. S., & Jackson, E. (2017). The Effects of the Affordable Care Act on Health Insurance Coverage and Labor Market Outcomes. *National Bureau of Economic Research Working Paper Series*, No. 23607. <https://www.nber.org/papers/w23607>
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- Finkelstein, A., Taubman, S., Wright, B., Bernstein, M., Gruber, J., Newhouse, J. P., ... Baicker, K. (2012). The oregon health insurance experiment: Evidence from the first year. *Quarterly Journal of Economics*. <https://doi.org/10.1093/qje/qjs020>
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IV. Disability insurance

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