

## MPA-815 Economic Analysis for Public Policy

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**Course Description:** In MPA-815 you learn how to interpret economic analyses and how to use the tools of microeconomics and empirical analysis to evaluate and predict the effects of public policies. It considers economic incentives in various organizations and institutions, models of economic behavior, the consequences of market failure as well as government failure, the interventions in markets and policy objectives and instruments. In this course, we will cover policy issues such as climate change, health care, retirement savings and school choices as well as social issues such as discrimination and segregation.

**Who Should Take This Course:** Economic theories attempt to explain the way in which economic agents behave and interact. Applications of such theories can be (and have been) found in many disciplines and underlie nearly all of the current policy debates. If you are interested in learning about a logically consistent view of human decision-making and its applications, this course is for you.

**Objectives:** After completing this course, you will be able to:

- 1) Be a producer of simple economic policy analysis;
- 2) Be an informed consumer of fairly sophisticated economic policy research.

**Course Prerequisites:** MPA-804 or Principles of Micro & Macro Economics and MPA-805 or a basic econometrics course. You are also expected to be comfortable with graphs, tables and basic algebra among others.

### Required Readings:

Assigned readings are integral parts of this course. They are essential to both your understanding of and success in the course. It is absolutely necessary that you complete the corresponding required readings before the class for which they are intended.

**Reference Textbooks** provide a structured background to the topics and terminologies the papers on the reading list relate to:

#### I. in Public Economics

**(Gruber) Public Finance and Public Policy** by Jonathan Gruber, Worth Publishers (multiple editions (5<sup>th</sup> edition, 2016 as of late), more current policy research issues and findings, more on US policies).

**(Rosen et al.) Public Finance in Canada** by Harvey Rosen, Beverly Dahlby, Roger Smith and Paul Boothe, McGraw-Hill (multiple Canadian editions (4<sup>th</sup> edition, 2012 as of late), traditional approach to public finance, covers some Canadian policies).

#### II. on Writing

There is the time-tested classic **The Elements of Style** by [William Strunk Jr.](#) and [E. B. White](#) and the latest addition **The Sense of Style** by Stephen Pinker, although I have it on good authority that if you can read an Economist magazine cover to cover without

resorting once to a dictionary, your English is better than 99% of the native speakers... For a lower-bar aspiration, if you can write as in those articles you read in the WSJ and FT-clear, concise and unassuming-you are already writing very well.

## Topics and Required Readings (subject to change)

### I. Introduction to Microeconomic Policy Analysis and Modeling

What is the role of microeconomics in public policy analysis? How are models constructed to make predictions and evaluate specific policy alternatives? How does Becker use this framework to analyze social issues?

Gary S. Becker, "Nobel Lecture: The Economic Way of Looking at Behavior", *Journal of Political Economy* 101:3 1993, pp. 385-409

### II. Private Incentives and Public Policy

Effective public policy must take into account individual incentives. We study under this topic why some policies succeed and others fail to be implemented by the US government from the experience of a Nobel Laureate. Is the Pareto criterion useful given the practical realities underscored by Stiglitz? How does an economist define efficiency? Is efficiency a desirable goal for society? What is an equity / efficiency tradeoff? To what extent this analysis of the inner working of government is applicable in Canada?

Joseph E. Stiglitz (1998), "The Private Uses of Public Interests: Incentives and Institutions", *Journal of Economic Perspectives* 12(2):3-22.

Acemoglu, Daron, and James A. Robinson (2013), "Economics versus Politics: Pitfalls of Policy Advice", *Journal of Economic Perspectives*, 27(2):173-92.

### III. Public Goods: Private versus Public Provision

What are the issues for private sector to provide public goods? What are the issues for public sector to provide public goods? How do we decide whether private or public sector should provide certain public good? How does what we know under "private incentives and public policy" enter into the discussion?

Andrei Shleifer (1998), "State versus Private Ownership", *Journal of Economic Perspectives*, 12(4): 133-150.

Rodrik, Dani (2014), "When Ideas Trump Interests: Preferences, Worldviews, and Policy Innovations," *Journal of Economic Perspectives*, 28(1): 189-208.

Gruber Chapter 7.

Rosen *et al.* Chapter 4.

#### **IV. Externalities: Climate Policy**

Why is uncertainty argued the most critical problem that faces climate policies? How does it affect the debate and design of climate change policies?

Stern, Nicholas (2008), "The Economics of Climate Change." *American Economic Review*, 98 (2): 1-37.

Nordhaus, William, D (2007), "A Review of the Stern Review on the Economics of Climate Change." *Journal of Economic Literature*, 45 (3): 686-702.

Gruber Chapter 5-6.

Rosen et al. Chapter 5.

#### **V. Agency Theory for Public Sector: Moral Hazard and Adverse Selection**

How to provide incentives for workers in organizations? What are distinctive about the public sector? How do these features determine what type of jobs should be allocated to the public sector?

Avinashi Dixit (2002), "Incentives and Organizations in the Public Sector: An Interpretative Review", *Journal of Human Resources* 37(4): 696-727.

Henderson, Rebecca and Sarah Kaplan (2005), "Inertia and Incentives: Bridging Organizational Economics and Organizational Theory," *Organization Science* 16 (5): 509-521.

#### **VI. Education: Efficiency vs. Equity**

How does an analyst define equity in the absence of a social consensus on the appropriate standard? Discuss the key equity considerations in the public financing of primary education in the Canada. Are there any implications for efficiency? (Make sure you carefully define equity and efficiency.) Do investments in education improve outcomes?

Caroline Hoxby (1996), "Are Efficiency and Equity in School Finance Substitutes or Complements?", *Journal of Economic Perspective* 10(4): 51-72.

Woessmann, Ludger (2016), "The Importance of School Systems: Evidence from International Differences in Student Achievement," *Journal of Economic Perspectives*, 30 (3): 3-32.

Gruber Chapter 11.

Rosen et al. Chapter 14.

## **VII. Social Insurance and Social Programs**

Aguila, Emma, Arie Kapteyn, and Francisco Perez-Arce (2017), "Consumption Smoothing and Frequency of Benefit Payments of Cash Transfer Programs," *American Economic Review*, 107 (5): 430-35.

Ioana Marinescu (2018), "No Strings Attached: The Behavioral Effects of U.S. Unconditional Cash Transfer Programs," NBER Working Paper No. 24337.

## **VII. Health**

Roth, Alvin E. (2007), "Repugnance as a Constraint on Markets," *Journal of Economic Perspectives*, 21(3): 37-58.

Slonim, Robert, Carmen Wang, and Ellen Garbarino (2014), "The Market for Blood", *Journal of Economic Perspectives*, 28(2): 177-96.

Mullainathan, Sendhil, and Ziad Obermeyer (2017), "Does Machine Learning Automate Moral Hazard and Error?" *American Economic Review*, 107 (5): 476-80.

Rosen et al. Chapter 13.

Gruber Chapter 15-16.

## **VIII. Savings and Retirement**

Messacar, D. "Crowd-out, education, and employer contributions to workplace pensions: Evidence from Canadian tax records." Forthcoming in *Review of Economics and Statistics*.

Joshua Blumenstock, Michael Callen, and Tarek Ghani, "Why Do Defaults Affect Behavior? Experimental Evidence from Afghanistan", *American Economic Review* 2018, 108(10): 2868–2901.

## **VIII. Discrimination and Segregation**

### **A. Job Market Discrimination**

Marianne Bertrand and Sendhil Mullainathan (2004), "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination", *American Economic Review*, 94(4): 991-1013.

Oreopoulos, Philip (2011), "Why Do Skilled Immigrants Struggle in the Labor Market? A Field Experiment with Thirteen Thousand Resumes," *American Economic Journal: Economic Policy* 3(4): 148-71.

### **B. Residential Segregation**

Philip Oreopoulos (2003), "The Long Run Consequences of Growing Up in a Poor Neighborhood", *Quarterly Journal of Economics*, 118 (4): 1533–1575.

Eric Chyn (2018), "Moved to Opportunity: The Long-Run Effects of Public Housing Demolition on Children", *American Economic Review*, 108(10): 3028–3056.

**Logistics:** Enrolled students are going to form study groups based on a topic they choose. The job for each group is to “personalize” the topic they adopt by defining a specific issue within the topic they are most interested in studying and provide associated research papers (no more than 2, subject to faculty review) for class discussion.

**Grading (tentative):**

Attendance	10%
Group work on a chosen topic	25%
One 2-page policy memo	15%
Homework	15%
Final Exam	35%

Receiving a grade below 70 will result in a course failure. Note that, The School of Graduate Studies regulations require students to have no more than one course failure.

**On Exam:** Students are allowed to use calculators, rulers, pens, pencils and erasers. No other materials will be permitted without prior permission from the instructor. Make up exam will only be given in extreme circumstances. If you must miss the exam, please see me well in advance to arrange some other suitable evaluation. Missing the exams without prior arrangement or compelling, verifiable reason will result in a zero grade. As well, evidence of the calamity should be provided.

## **CLASS POLICIES:**

**On meeting with an instructor:** Office hours each week is the time slot your instructor dedicate to you throughout the course, which is also the best time to find her completely available to assist you. If there is a lineup during office hours, each student may only take up 10' per turn. When emailing to request meeting outside of office hours, please specify your availability in the next few days. Emailed questions will be answered usually in 72 hours excluding weekends and out of town trips.

**On Attendance:** Attendance of lectures is required. To minimize free-riding behavior and potential negative externalities to your classmates, I will deduct up to 5 points from your final marks of 100 points each time you fail to attend a lecture. The common rules of acceptable absenteeism apply.

**On Cooperation:** You may cooperate on practice problem sets. You may not cooperate while taking exams.

**On Re-grade:** A request for a re-grade shall be submitted to the instructor in writing. In such a case, I will reevaluate your complete exam and not just the specific questions and answers you wish to have reviewed. This does not apply to corrections of obvious grading errors.

**If you need help:** If you find that you are having difficulty with any of the material in this course:

- (1) DO NOT let it build up. The material is cumulative in nature and you are likely to find yourself only falling further behind.
- (2) DO come and see the instructor, either after class or by making an appointment. Be forewarned: We expect that you have read the relevant readings and reviewed your notes BEFORE you come to my office.
- (3) If you need further help, the graduate students in the Economics Department are available for hire as private tutors (they charge \$25+ an hour--to obtain a list of names, call the receptionist (613-533-2250)).

**Academic Integrity:** Academic Integrity is constituted by the five core fundamental values of honesty, trust, fairness, respect and responsibility (see [www.academicintegrity.org](http://www.academicintegrity.org)). These values are central to the building, nurturing and sustaining of an academic community in which all members of the community will thrive. Adherence to the values expressed through academic integrity forms a foundation for the "freedom of inquiry and exchange of ideas" essential to the intellectual life of the University (see the Senate Report on Principles and Priorities <http://www.queensu.ca/secretariat/policies/senate/report-principlesand-priorities>).

Students are responsible for familiarizing themselves with the regulations concerning academic integrity and for ensuring that their assignments conform to the principles of academic integrity. Information on academic integrity is available in the Graduate Studies Calendar ([http://www.queensu.ca/calendars/sgsr/Academic\\_Integrity\\_Policy.html](http://www.queensu.ca/calendars/sgsr/Academic_Integrity_Policy.html)). Departures from academic integrity include plagiarism, use of unauthorized materials, facilitation, forgery and falsification, and are antithetical to the development of an academic community at Queen's. Given the seriousness of these matters, actions which contravene the regulation on academic integrity carry sanctions that can range from a warning or the loss of grades on an assignment to the failure of a course to a requirement to withdraw from the university.

**Disability Accommodations:** Queen's University is committed to achieving full accessibility for persons with disabilities. Part of this commitment includes arranging academic accommodations for students with disabilities to ensure they have an equitable opportunity to participate in all of their academic activities. If you are a student with a disability and think you may need accommodations, you are strongly encouraged to contact Student Wellness Services (SWS) and register as early as possible. For more information, including important deadlines, please visit the Student Wellness website at: <http://www.queensu.ca/studentwellness/accessibility-services/>

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**Accommodation after the fact:** Once a student has written an exam, they may not subsequently be granted accommodation such as being offered a second opportunity to write the exam or have it count for less than originally specified in the course syllabus

(reweighted). Students who cannot perform to the best of their abilities due to a serious, extenuating circumstance should inform their instructor as soon as possible and before attempting an exam or completing a course to arrange appropriate accommodation.

**References:** In general, I am happy to provide references for employers or write letters of reference for students who plan to attend further graduate school. The strength of any recommendation remains positively correlated with your performance in this course. For job references, please email me with a heads up that a potential employer might call or email. Please also let the respective referee know if there are any skills of yours that I should highlight in my reply to them. Naturally, make sure that these claims are credible as my reputation is on the line. If you would like a letter of reference for graduate school please also attach a statement of purpose (if relevant) as well as a current CV / transcript. Please allow at least 3 weeks for the completion of letters.

**If You Find Yourself in Trouble:** First step, head back earlier in the syllabus to the heading if you need help. Yet, in the event of receiving a final grade between 60 and 69.5 in this course, the School of Policy Studies will allow the student to write a qualifying examination to assess if the students' knowledge of this field meet the minimum standard for the MPA degree. Passing the qualification exam will result in receiving a passing grade of B- for the course. The qualifying exam is not a make-up exam. The qualifying exam must be written by May 31, 2019.

Receiving a grade below 60 will result in a course failure. In this case, students will be required to either repeat the course or take an approved substitute. Note that, The School of Graduate Studies regulations require students to have no more than one course failure.