

Queen's School of Policy Studies, winter 2019

MPA-849 Behavioral Public Finance

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Course Description: Traditional public finance provides a simple but powerful framework to analyze the questions discussed on the front page of the newspaper every day. This framework, however, is often criticized for relying on an overly simple model of human behavior. Behavior economics advocates a psychologically richer perspective on human behavior for economic analysis. The course introduces this new development in public finance that not only attempts to apply psychology to public finance problems but also tries to reshape core public finance concepts such as moral hazard, deadweight loss and tax incidence.

Who Should Take This Course: Students who are interested in public finance issues but not entirely satisfied with traditional analysis on government intervention, market failure and social welfare; Students who are interested in behavior economics and its applications; Students who want to learn new development in public finance.

Course Prerequisites: Introductory Economics is required (MPA804 equivalent) and basic statistics is preferred (MPA805 equivalent). A previous course in public economics is also preferred (or MPA815 simultaneously).

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. Most of the readings are listed with links at the course website that will be available onQ.

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

I. in (Traditional) Public Economics

(Gruber) Public Finance and Public Policy by Jonathan Gruber, Worth Publishers (multiple editions (5th 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 (4th edition, 2012 as of late), traditional approach to public finance, covers some Canadian policies).

II. in Behavioral Public Economics

(Congdon et al.) Policy and Choice: Public Finance through the Lens of Behavioral Economics by William J. Congdon, Jeffrey R. Kling and Sendhil Mullainathan (2011, The Brookings Institution, PDF form is free for download and Paperback is available for purchase.)

(Bernheim et al.) Handbook of Behavioral Economics - Foundations and Applications. Volume 1, edited by B. Douglas Bernheim, Stefano DellaVigna and David Laibson.

III. 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 like 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

Policy and Choice Chapter 1.

Examples on health insurance, taxes and externalities.

II. Psychology and the Foundations of Public Finance

Imperfect optimization, bounded self-control and nonstandard preferences; how do they change the standard conclusions of public finance?

Policy and Choice Chapter 2-3.

Handbook of Behavioral Economics V1 Chapter 2: Reference-Dependent Preferences.

1. Barberis, N. (2013): “Thirty Years of Prospect Theory in Economics: A Review and Assessment,” *Journal of Economic Perspectives*, 27(1): 173-196.

III. Behavioral Economics and Public Finance in Practice

Handbook of Behavioral Economics V1 Chapter 5: Behavioral Public Economics.

Policy and Choice Chapter 4-7.

Chapter 4: Asymmetric Information

Adverse selection and moral hazard interact with behavior tendencies.

2. Katherine Baicker, Sendhil Mullainathan and Joshua Schwartzstein, “Behavioral Hazard in Health Insurance,” *The Quarterly Journal of Economics*, 130: 1623–1667.

Chapter 5: Externalities and Public Goods

3. Hunt Allcott and Christopher Knittel, “Are Consumers Poorly Informed About Fuel Economy? Evidence from Two Experiments,” NBER Working Paper 23076.

4. Hunt Allcott, Sendhil Mullainathan and Dmitry Taubinsky, “Energy Policy with Externalities and Internalities,” NBER Working Paper 17977.

Chapter 6: Poverty and Inequality

Handbook of Behavioral Economics V1 Chapter 3: Behavioral Household Finance.

5. “Saving Brick by Brick,” Chapter 8 from the book “Poor Economics” by Abhijit Banerjee and Esther Duflo, Public Affairs, April 2011.

6. John Beshears, James J. Choi, David Laibson, and Brigitte C. Madrian, “The Importance of Default Options for Retirement Savings Outcomes: Evidence from the United States,” NBER Working Paper No.12009.

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

Chapter 7: Taxation and Revenue

8. Marika Cabral and Caroline Hoxby, “The Hated Property Tax: Salience, Tax Rates, and Tax Revolts,” NBER Working Paper 18514.

9. Raj Chetty, Adam Looney, and Kory Kroft, “Salience and Taxation: Theory and Evidence,” *American Economic Review* 2009, 99(4): 1145–1177.

Topic 8: Behavioral Economics of Education

10. Eric, B. T. Long, Philip Oreopoulos, and Lisa Sanbonmatsu, “The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment,” *Quarterly Journal of Economics* 127(3), August 2012, Pages 1205–1242.

Topic 9: Markets that Move by Beliefs

11. Gentzkow, M., and J. Shapiro: “Competition and Truth in the Market for News,” *Journal of Economic Perspectives* 2008, 22(2): 133-154.

12. Martin, Gregory J., and Ali Yurukoglu, "Bias in Cable News: Persuasion and Polarization." *American Economic Review* 2017, 107 (9): 2565-99.

Logistics: Enrolled students are going to form study groups based on a topic they choose. The job for each group is to guide class discussion on a specific paper and “personalize” the topic they adopt by defining a specific issue within the topic they are most interested in debating.

Grading (subject to adjustment):

Group presentation on a chosen paper(s)	30%
Group work of literature review on a chosen topic	30%
Final Exam	40%

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 cases. 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 the instructor: Office hours each week is the time slot your instructor dedicates 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 \$30+ 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 (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). 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/>

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 final mark below 70 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.