

ECON-E0910
Public Economics II: Public Expenditures
Spring 2023

Instructor's Information

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Course Information

MSc (Econ) elective course
Location: U006, Ekonominaukio 1
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Overview

This course provides an overview of the modern microeconomic approaches that economists use to analyze the public expenditures. We will emphasize the interplay between theory and empirics and cover topics such as provision of public goods, corrections of externalities, social insurance policies, health care and the criminal justice system.

Prerequisites

The course is a continuation for Public Economics 1: Taxation Policy (31E09100), though the first course in this sequence is not required for this class. You should be comfortable with intermediate microeconomics and with basic concepts covered in Empirical Methods for Economists (31C01200). This course has a particular emphasis on empirical evidence. If you have already taken Applied Microeconometrics I (31E00910), you will see many familiar empirical approaches in action. Nonetheless, as 31E00910 is not a formal prerequisite of the course, we will also briefly review empirical methods in class.

Assessment and Grading

There will be four graded problem sets and a final exam. 40% of the final grade will be based on the performance in these problem sets and the final exam will account for the remaining 60%. To pass the course, you should pass both the problem sets and the exam.

Ph.D. Students will also be required to submit two referee reports on papers related to Public Economics.

Please note that deadlines are binding: problem sets will only be considered if they have been handed in on time.

Resources

The Handbook of Public Economics Vol. 1 - 5

Atkinson, Anthony B.; Stiglitz, J. E. (2015). Lectures on Public Economics. Princeton University Press

Myles, G. D. (1995). Public Economics. Cambridge University Press

1 Syllabus

Externalities

Brookshire, David S, e. a. (1982). Valuing Public Goods: A Comparison of Survey and Hedonic Approaches. American Economic Review, 72(1):165–177

Chay, K. Y. and Greenstone, M. (2005). Does air quality matter? evidence from the housing market. Journal of Political Economy, 113(2):376–424

Currie, J., Davis, L., Greenstone, M., and Walker, R. (2015). Environmental health risks and housing values: Evidence from 1,600 toxic plant openings and closings. American Economic Review, 105(2):678–709

Diamond, P. A. and Hausman, J. A. (1994). Contingent valuation: Is some number better than no number? The Journal of Economic Perspectives, 8(4):45–64

Edlin, A. and Karaca-Mandic, P. (2006). The accident externality from driving. Journal of Political Economy, 114:931–955

Rossi-Hansberg, E., Sarte, P.-D., and Owens, R. (2008). Housing externalities. Journal of Political Economy, 118:485–535

Weitzman, M. (1974). Prices vs. quantities. Review of Economic Studies, 41:477–91

Public Goods

Andreoni, J. (1993). An experimental test of the public-goods crowding-out hypothesis. American Economic Review, 83:1317–27

Andreoni, J. and Payne, A. (2003). Do government grants to private charities crowd out giving or fund-raising? American Economic Review, 93:792–812

Andreoni, J. and Payne, A. (2010). Is crowding out due entirely to fundraising? evidence from a panel of charities. Journal of Public Economics, 95:334–343

Andreoni, J. and Payne, A. A. (2013). Crowding Out: The Effect of Government Grants

on Donors, Fundraisers, and Foundations in Canada. Department of Economics Working Papers 2013-10, McMaster University

Andreoni, J., Payne, A., and Smith, S. (2014). Do grants to charities crowd out other income? Evidence from the UK. Journal of Public Economics, 114(C):75–86

Andreoni, J., Rao, J. M., and Trachtman, H. (2017). Avoiding the Ask: A Field Experiment on Altruism, Empathy, and Charitable Giving. Journal of Political Economy, 125(3):625–653

Atkinson, A. B. and Stern, N. H. (1974). Pigou, Taxation and Public Goods. Review of Economic Studies, 41(1):119–128

Bergstrom, T., Blume, L., and Varian, H. (1986). On the private provision of public goods. Ted C Bergstrom, 29

Chetty, R., Friedman, J. N., Leth-Petersen, S., Nielsen, T. H., and Olsen, T. (2014). Active vs. Passive Decisions and Crowd-Out in Retirement Savings Accounts: Evidence from Denmark. The Quarterly Journal of Economics, 129(3):1141–1219

Hungerman, D. (2005). Are church and state substitutes? evidence from the 1996 welfare reform. Journal of Public Economics, 89:2245–2267

Lindahl, E. (1958). Just taxation—a positive solution. pages 168–176. Palgrave Macmillan

Marwell, G. and Ames, R. E. (1981). Economists free ride, does anyone else? : Experiments on the provision of public goods, IV. Journal of Public Economics, 15(3):295–310

Payne, A. A. (1998). Does the government crowd-out private donations? New evidence from a sample of non-profit firms. Journal of Public Economics, 69(3):323–345

Samuelson, P. A. (1954). The pure theory of public expenditure. The Review of Economics and Statistics, 36(4):387–389

Social Insurance

Adverse Selection

Chetty, R. and Finkelstein, A. (2012). Chapter 3. social insurance: Connecting theory to data. Handbook of Public Economics, 5

Akerlof, G. A. (1970). The market for "lemons": Quality uncertainty and the market mechanism. The Quarterly Journal of Economics, 84(3):488–500

Chiappori, P. and Salanie, B. (2000). Testing for asymmetric information in insurance markets. Journal of Political Economy, 108(1):56–78

Einav, L., Finkelstein, A., and Cullen, M. (2010). Estimating welfare in insurance markets

using variation in prices. The quarterly journal of economics, 125:877–921

Fang, H., Keane, M., and Silverman, D. (2008). Sources of advantageous selection: Evidence from the medigap insurance market. Journal of Political Economy, 116(2):303–350

Handel, B. (2013). Adverse selection and inertia in health insurance markets: When nudging hurts. The American economic review, 103:2643–82

Hendren, N. (2013). Private information and insurance rejections. Econometrica : journal of the Econometric Society, 81

Finkelstein, A. and Poterba, J. (2006). Testing for adverse selection with unused observables. Journal of Risk and Insurance

Finkelstein, A. and McGarry, K. (2006). Multiple dimensions of private information: Evidence from the long-term care insurance market. The American Economic Review, 96:938–958

Rothschild, M. and Stiglitz, J. (1976). Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information*. The Quarterly Journal of Economics, 90(4):629–649

Social Security

Abrams, D. S. (2012). Estimating the deterrent effect of incarceration using sentencing enhancements. American Economic Journal: Applied Economics, 4(4):32–56

Aguiar, M. and Hurst, E. (2005). Consumption versus expenditure. Journal of Political Economy, 113(5):919–948

Aizer, A. and Doyle, J. J. (2015). Juvenile Incarceration, Human Capital, and Future Crime: Evidence from Randomly Assigned Judges. The Quarterly Journal of Economics, 130(2):759–803

Chen, E. Y. (2008). Impacts of three strikes and you're out on crime trends in california and throughout the united states. Journal of Contemporary Criminal Justice, 24(4):345–370

Diamond, P. A. (2016). National debt in a neoclassical growth model

Draca, M., Machin, S., and Witt, R. (2011). Panic on the streets of london: Police, crime, and the July 2005 terror attacks. American Economic Review, 101(5):2157–81

Manoli, D. and Weber, A. (2016). Nonparametric Evidence on the Effects of Financial Incentives on Retirement Decisions. American Economic Journal: Economic Policy, 8(4):160–182

O'Dea, C. and Sturrock, D. (2023). Survival Pessimism and the Demand for Annuities. The Review of Economics and Statistics, 105(2):442–457

Samuelson, P. A. (1958). An exact consumption-loan model of interest with or without the social contrivance of money. Journal of Political Economy, 66(6):467–482

Seibold, A. (2021). Reference points for retirement behavior: Evidence from german pension discontinuities. American Economic Review, 111(4):1126–65

Disability Insurance

Autor, D., Kostøl, A., Mogstad, M., and Setzler, B. (2018). Disability benefits, consumption insurance, and household labor supply. SSRN Electronic Journal

Autor, D., Maestas, N., Mullen, K., and Strand, A. (2015). Does delay cause decay? the effect of administrative decision time on the labor force participation and earnings of disability applicants. SSRN Electronic Journal

Autor, D. and Duggan, M. (2003). The rise in the disability rolls and the decline in unemployment. The Quarterly Journal of Economics, 118:157–205

Black, B., French, E., McCauley, J., and Song, J. (2018). The effect of disability insurance receipt on mortality

Bound, J. (1989). The health and earnings of rejected disability insurance applicants. The American Economic Review, 79(3):482–503

Bound, J. (1991). The health and earnings of rejected disability insurance applicants: Reply. The American Economic Review, 81(5):1427–1434

Dahl, G., Kostol, A., and Mogstad, M. (2014). Family welfare cultures. The Quarterly Journal of Economics, 129:1711–1752

Dahl, G. and Gielen, A. (2021). Intergenerational spillovers in disability insurance. American Economic Journal: Applied Economics, 13:116–150

Deshpande, M. (2016). The effect of disability payments on household earnings and income: Evidence from the ssi children’s program. Review of Economics and Statistics, 98

Deshpande, M. and Li, Y. (2018). Who is screened out? application costs and the targeting of disability programs. SSRN Electronic Journal

Deshpande, M. and Mueller-Smith, M. (2022). Does Welfare Prevent Crime? the Criminal Justice Outcomes of Youth Removed from SSI. The Quarterly Journal of Economics, 137(4):2263–2307

Diamond, P. and Sheshinski, E. (1995). Economic aspects of optimal disability benefits. Journal of Public Economics, 57:1–23

French, E. and Song, J. (2014). The effect of disability insurance receipt on labor supply.

American Economic Journal: Economic Policy, 6(2):291–337

Golosov, M., Tsyvinski, A., and Golosov, M. (2006). Designing optimal disability insurance: A case for asset testing. Journal of Political Economy, 114:257–279

Hoynes, H. W., Maestas, N., and Strand, A. (2022). Legal Representation in Disability Claims. NBER Working Papers 29871, National Bureau of Economic Research, Inc

Kling, J. R. (2006). Incarceration length, employment, and earnings. The American Economic Review, 96(3):863–876

Low, H. and Pistaferri, L. (2015). Disability insurance and the dynamics of the incentive insurance trade-off. The American Economic Review, 105(10):2986–3029

Maestas, N., Mullen, K., and Strand, A. (2011). Does disability insurance receipt discourage work? using examiner assignment to estimate causal effects of ssdi receipt? SSRN Electronic Journal

Deshpande, M. and Mueller-Smith, M. (2022). Does Welfare Prevent Crime? the Criminal Justice Outcomes of Youth Removed from SSI. The Quarterly Journal of Economics, 137(4):2263–2307

Parsons, D. O. (1980). The decline in male labor force participation. Journal of Political Economy, 88(1):117–134

The Criminal Justice System

Agan, A. Y. and Makowsky, M. D. (2018). The Minimum Wage, EITC, and Criminal Recidivism. NBER Working Papers 25116, National Bureau of Economic Research, Inc

Becker, G. S. (1968). Crime and Punishment: An Economic Approach. Journal of Political Economy, 76:169

Bhuller, M., Dahl, G. B., Løken, K. V., and Mogstad, M. (2020). Incarceration, recidivism, and employment. Journal of Political Economy, 128(4):1269–1324

Britto, D., Pinotti, P., and Sampaio, B. (2022). The effect of job loss and unemployment insurance on crime in brazil. Econometrica, 90:1393–1423

Dell, M., Feigenberg, B., and Teshima, K. (2019). The violent consequences of trade-induced worker displacement in mexico. American Economic Review: Insights, 1(1):43–58

Di Tella, R. and Schargrodsky, E. (2013). Criminal recidivism after prison and electronic monitoring. Journal of Political Economy, 121(1):28–73

Drago, F., Galbiati, R., and Vertova, P. (2009). The deterrent effects of prison: Evidence from a natural experiment. Journal of Political Economy, 117(2):257–280

- Ludwig, J. and Raphael, S. (2003). Evaluating Gun Policy: Effects on Crime and Violence, chapter Prison Sentence Enhancements: The Case of Project Exile. Brookings Institution Press
- Marvell, T. B. and Moody, C. E. J. (1994). Prison population growth and crime reduction. Journal of Quantitative Criminology, 10(2):109–140
- Deshpande, M. and Mueller-Smith, M. (2022). Does Welfare Prevent Crime? the Criminal Justice Outcomes of Youth Removed from SSI. The Quarterly Journal of Economics, 137(4):2263–2307
- Dix-Carneiro, R., Soares, R. R., and Ulyssea, G. (2018). Economic shocks and crime: Evidence from the brazilian trade liberalization. American Economic Journal: Applied Economics, 10(4):158–195
- Ehrlich, I. (1973). Participation in illegitimate activities: A theoretical and empirical investigation. Journal of Political Economy, 81(3):521–565
- Kaila, M. (2023). How do people react to income based fines? evidence from speeding tickets discontinuities. Technical report, University of Helsinki
- Katz, L., Levitt, S. D., and Shustorovich, E. (2003). Prison conditions, capital punishment, and deterrence. American Law and Economics Review, 5(2):318–343
- Levitt, S. D. (1996). The Effect of Prison Population Size on Crime Rates: Evidence From Prison Overcrowding Litigation. Quarterly Journal Of Economics, 111(2):319–351
- Mueller-Smith, M. (2015). The criminal and labor market impacts of incarceration. Working Paper
- Norris, S., Pecenco, M., and Weaver, J. (2021). The Effects of Parental and Sibling Incarceration: Evidence from Ohio. American Economic Review, 111(9):2926–2963
- Schnepel, K. T. (2018). Good Jobs and Recidivism. Economic Journal, 128(608):447–469
- Tonry, M. (2009). The mostly unintended effects of mandatory penalties: Two centuries of consistent findings. Crime and Justice, 38(1):65–114
- Tuttle, C. (2019). Snapping back: Food stamp bans and criminal recidivism. American Economic Journal: Economic Policy, 11(2):301–27
- Yang, C. S. (2017a). Does Public Assistance Reduce Recidivism? American Economic Review, 107(5):551–555
- Yang, C. S. (2017b). Local labor markets and criminal recidivism. Journal of Public Economics, 147(C):16–29