

School of Public Policy and Public Administration
PPPA 8105
PhD Seminar: Economic Models and Public Policy Analysis
Fall 2014
Professor Burt Barnow/Professor Joseph Cordes

Class Meeting: Media and Public Affairs Building, Room 601Z.
Tuesday: 6:10 to 8:00 P.M.

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Office Hours: By appointment

Learning Objectives:

This is a PhD-level course that focuses on topics in public economics and human capital theory and labor economics. At the conclusion of the course, students will have an understanding of various models for analyzing public sector institutions, expenditures and revenues; and of labor economic/human capital models and how these relate to public policy research.

The course has the following specific objectives:

- To familiarize students with some of the theoretical foundations of public expenditure and revenue analysis, human capital theory and labor economics.
- To introduce students to the various approaches to research in these areas field, which (consistent with the interdisciplinary nature of public policy and administration) rely on tools from many fields, such as economics, and political science.
- To provide students with an opportunity to do independent research that furthers some larger career objective, such as making progress toward a dissertation topic or producing a publishable paper.

Required Readings

There is no required textbook for the course. Instead, it will rely on a substantial number of readings, mainly from academic journals and handbooks, posted on Blackboard. In most weeks, 100-150 pages of reading will be required. It is vital that students keep up with these readings. In addition, each student will be required to read and report on one book either selected from the list below, or selected by the student

with the approval of the instructor(s).

Course Requirements

While course grades in a PhD-level course are a relatively unimportant predictor of future success, there will be three main components (in addition to class participation) used to determine your grade. The first of these is the book summary referenced above. The second is a major paper on some budget and finance related issue. The third is an oral presentation on your paper. See attachment for more guidance. The course requirements will be weighted as follows:

- Book Summary —25 percent
- Class Participation—15 percent
- Oral Presentation—10 percent
- Final Paper—50 percent (**Due on December 12**)

Please note that this syllabus is intended as a guide to the course for the student. Sound educational practice requires flexibility and the instructor may, with appropriate notice, change content and requirements at any time during the semester.

Class Schedule at a Glance

I. Introduction

- A. August 26—Course Overview
- B. September 2— Economic Role of Government
- C. September 9— Basic Principles of Incidence Analysis
- D. September 16---Expenditure Analysis
- E. September 23---Income and Wealth Inequality
- F. September 30---Political Economy of Inequality and Transfers
- G. October 7 --- Public Finance and Behavioral Economics
- H. October 14--- Basic Human Capital Theory
- I. October 21 — Immigration
- J. October 28 — Returns to Higher Education

- K. November 4—Social and Private Returns to Education
- L. November 11—Discrimination
- M. November 18— Occupational Training and Health
- N. November 25 — Course Wrap-up and paper presentations
- O. December 2— Paper Presentations

II. Course Outline and Reading List

A. August 26—Course Overview

B. September 2—Frameworks for Public Expenditure Analysis

Musgrave. The Theory of Public Finance, McGraw Hill (1959), pp. 1-28.

Buchanan and Musgrave. Public Finance and Public Choice: Two Contrasting Visions of the State, “Day 1 – Day 3”. MIT Press (2002).

Tanzi. Government vs. Markets: The Changing Role of the State. Cambridge Press (2011), Chapters 1 and 8.

Colander and Kupers. Complexity and the Art of Public Policy: Solving Society's Problems from the Bottom Up. Princeton (2014). Chapter 1.

C. September 9—Basic Principles of Incidence Analysis

Tax Incidence

Cordes and Watson, “The Theory and Practice of Tax Incidence” in Fred Thompson, Handbook of Public Finance, Marcel Dekker, (1998), pp. 135-193.

Congressional Budget Office. The Incidence of the Corporate Income Tax. (1996).

Expenditure Incidence

Watts. “Expenditure Incidence.” In Thompson, Handbook of Public Finance, pp. 199-220.

Ruggeri. “Public Expenditure Analysis.” In Anwar Shah, editor. Public Expenditure Analysis. World Bank, (2005), pp. 1-23.

Aaron and McGuire, 1970. "Public Goods and Income Distribution." Econometrica 38(6) pp. 907-920.

Austen, et. al. "Expenditure Incidence Analysis: A Gender-Responsive Budgeting Tool for Education Expenditures in Timor-Leste?" Feminist Economics, (2013), pp. 1-26.

D. September 16—Public Expenditure Analysis

Frameworks for Policy Analysis

Roberts and Zeckhauser, "The Methodology of Normative Policy Analysis," Journal of Policy Analysis and Management, (2011).

Cost Benefit Analysis

Boardman, et. al., Cost Benefit Analysis: Concepts and Practice, 4th Edition. (Chs. 1 and 2)

Vining, Aidan and Weimer, David L, 2010. "An Assessment of Important Issues Concerning the Application of Benefit-Cost Analysis to Social Policy," Journal of Benefit-Cost Analysis: Vol. 1.1,

Incidence of Federal Education Subsidies

Turner. "Who Benefits from Student Aid? The Economic Incidence of Tax-Based Federal Student Aid." (2010), pp 1-49.

Cellini and Goldin. "Does Federal Student Aid Raise Tuition? New Evidence on For-Profit Colleges." NBER Working Paper 17827 (2012), pp. 1-46.

E. September 23— Measuring Income Inequality

Measures and Indicators

Kakwani and Son, 2005. "On Measures of Inequality and Poverty with Welfare." in Shah, Public Expenditure Analysis, pp. 33-47; Congressional Budget Office, 2011. Trends in the Household Distribution of Income 1979-2007, pp. 33-42.

Alkire and Foster, 2009. "Counting and Multi-Dimensional Poverty Measures." Von Braun, Hill, and Pandya-Lorch, eds. pp. 77-91.

Scruggs and Allan, 2006. "Welfare-State De-Commodification in 18 OECD Countries: A Replication and Revision." Journal of European Social Policy, pp. 55-72.

Inequality of Income and Wealth

Atkinson, 2014. Chartbook on Inequality (website)
<http://www.chartbookofeconomicinequality.com/about/>

Science, 2014. Special Section on the Science of Inequality, pp. 818-867.

Alvarado, et. al. 2014. The Top 1 Percent in Historical Perspective.” Journal of Economic Perspectives, pp. 3-20.

American Enterprise Institute, 2014. Opportunity for All: How to Think About Inequality. pp. 3-7; 49-86.

Chetty, 2014. Equality of Opportunity Project (website)
<http://www.equality-of-opportunity.org/>

Pfeffer, et. al., 2013. “Wealth Disparities Before and After the Great Recession.” pp. 1-41.

Tax and Budget Policy and Inequality

Martinez-Vasquez. 2008. “The Impact of Fiscal Policy on the Poor: Fiscal Incidence Analysis.” Public Finance for Poverty Reduction. Moreno-Dodson and Woodson, eds. World Bank. Pp. 1-40.

International Monetary Fund, 2014. “Fiscal Policy and Inequality.” IMF Staff Paper, pp. 1-54.

Lustig and Higgins, 2013. “Commitment to Equity Assessment (CEQ): Estimating the Incidence of Subsidies, Social Spending and Taxes.” Handbook, pp. 1-43 (focus on broad concepts; don’t get bogged down in measurement specifics).

Higgins, et. al. 2013. “Comparing the Incidence of Social Taxes and Spending in the U.S. and Brazil.” CEQ Working Paper 16, Commitment to Equity Project, pp. 1-37.

Adema, Fron, and Ledaique, 2014. “How Much do OECD Countries Spend on Social Protection and How Redistributive are Their Tax/Benefit Systems?” International Social Security Review, pp. 1-25.

F. September 30 ---Political Economy and Incentive Effects of Inequality and Transfers

Political Economy

Musgrave and Musgrave, 1989. “Optimal Redistribution” Public Finance in Theory and Practice, pp. 82-101.

Akerlof and Shiller, 2009. “Fairness” in Animal Spirits: How Human Psychology Drives the Economy and Why it Matters for Global Capitalism. Princeton University Press, pp. 1-8.

Faravelli, 2007. “How Context Matters: A Survey Based Experiment on Distributive Justice.” Journal of Public Economics, pp. 1399-1422.

Kristov, Lindert, and McClelland, 1992. “Pressure Groups and Redistribution.” Journal of Public Economics, 48(2), pp. 135-163.

Alesina, Alberto and Giuliano, Paulo, 2009. “Preferences for Redistribution,” NBER Working paper 14825. (modeling cross-country variation in transfers), pp. 1-40.

Behavioral Response to Transfers

McKinnish, 2007. “Cross-Border Welfare Migration: New Evidence from Micro-Data.” Journal of Public Economics, 91(3-4), pp. 437-450.

Giulliti and Wahba, 2013. “Welfare Migration.” in Constant and Zimmerman, eds. International Handbook of Migration. Elgar, pp. 489-504.

Tach, et. al., 2014. Knowledge of the Tax Code and Behavioral Response to the EITC. Journal of Policy Analysis and Management, pp. 413-439 and Eissa and Hoynes, 2006. “Behavioral Response to Taxes: Lessons from the EITC and Labor Supply.” J. Poterba, ed. Tax Policy and the Economy, MIT Press, pp. 74-110.

Boustan, et. al., 2013. “The Effect of Rising Income Inequality on Taxation and Expenditures.” Review of Economics and Statistics, pp.1291-1302.

International Monetary Fund, 2014. Inequality and Growth pp. 1-30.

Wolfers, 2014. Inequality and Growth. (slide presentation).

G. October 7— Public Finance and Behavioral Economics

Camerer and Loewenstein. “Behavioral Economics: Past Present and Future.”

(2002)

Chapters 1-3 Congdon, Kling, and Mullainathan. Policy and Choice, Brookings Institution Press (2011).

Shaviro, 2014. “Multiple Myopia, Multiple Selves, and the Saving Problem.”

Chetty, Looney, and Kroft, “Salience and Taxation: Theory and Evidence,” National Bureau of Economic Research Working Paper, (2008), 1-40.

H. October 14 —Basic Theory of Human Capital and Investments Prior to Age 5

T.W. Schultz (1961). “Investment in Human Capital.” American Economic Review. 51:1-17.

Jacob Mincer (1974). Schooling Experience, and Earnings (1974). New York: National Bureau of Economic Research. Chapter 1.

Robert J. Willis (1986). “Wage Determinants: A Survey and Reinterpretation of Human Capital Earnings Functions” in Handbook of Labor Economics, Vol. 1, Orley Ashenfelter and Richard Layard, Editors. New York: Elsevier. (Skim)

Douglas Almond and Janet Currie (2011). “Human Capital Development before Age Five” Handbook of Labor Economics, Vol. 4b, Orley Ashenfelter and David Card, Editors. New York: Elsevier. (skim).

Janet Currie (2001). “Early Childhood Education Programs.” Journal of Economic Perspectives. 15(2): 213-238.

Westat (2010). “Head Start Impact Study Final Report Executive Summary.” Washington, DC: U.S. Department of Health and Human Services.

Pedro Carneiro and James J. Heckman (2003). “Human Capital Theory.” Cambridge, MA: National Bureau of Economic Research. Working Paper 9495. (optional)

* Gary Becker (1975). Human Capital. New York: National Bureau of Economic Research.

I. October 21 — Immigration

Larry A. Sjaastad (1962). “The Costs and Returns of Human Migration.” Journal of Political Economy. 70(5, part 2): 80-93.

Barry R. Chiswick (1978). "The Effect of Americanization on the Earnings of Foreign-Born Men." Journal of Political Economy. 86(5): 897-921.

Barry R. Chiswick and Paul W. Miller (2007). The Economics of Language: International Analyses. New York: Routledge.

Barry R. Chiswick, Editor. (2011). High-Skilled Immigration in a Global Labor Market. American Enterprise Institute.

Barry R. Chiswick (1999). "Are Immigrants Favorably Self-Selected?" American Economic Review. 89(2): 181-185.

George J. Borjas (1999). "The Economics of Immigration" in Handbook of Labor Economics, Vol. 3, Orley Ashenfelter and David Card, Editors. New York: Elsevier.

Barry R. Chiswick (2009). "Top Ten Myths and Fallacies Regarding Immigration." Bonn, Germany: IZA, Policy Paper No. 12.

David Card (2005). "Is the New Immigration Really So Bad?" Economic Journal. 115(507): F300-F323.

George Borjas (2003). "The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market." Quarterly Journal of Economics. 118(4): 1335-1374.

J. October 28—Returns to Higher Education

David Card (1999). "The Causal Effect of Education on Earnings." In Handbook of Labor Economics, Vol. 3, Orley Ashenfelter and David Card, Editors. New York: Elsevier.

W. Norton Grubb (1993), "The Varied Economic Returns to Postsecondary Education," Journal of Human Resources. 28: 365-382.

Christopher Jepsen, Kenneth Troske, and Paul Coomes (2012). "The Labor Market Returns to Community College Degrees, Diplomas, and Certificates." IZA Discussion Paper 6902.

Louis S. Jacobson, Robert J. LaLonde, and Daniel G. Sullivan (2005). "Estimating the Returns to Community College Schooling for Displaced Workers." Journal of Econometrics 125(1-2): 271-304.

Thomas J. Kane and Cecelia Elena Rouse (1995). "Labor Market Returns to Two- and Four-Year College." American economic Review. 85, No. 3: 600-614.
(optional)

Dominic J. Brewer, Eric R. Eide, and Ronald G. Ehrenberg (1999). “Does It Pay to Attend an Elite Private College?” Journal of Human Resources. 34(1): 104-123.

Dan Black, Jeffrey Smith, and Kermit Daniel (2005). “College Quality and Wages in the United States.” German Economic Review . 6(3): 415-443. (Skim)

Stacy Berg Dale and Alan B. Krueger (2002). “Estimating the Payoff to Attending a More Selective College: An Application of Selection on Observables and Unobservables.” Quarterly Journal of Economics. 107(4): 1491-1527.

Mark Hoekstra (2009). “The Effect of Attending the Flagship State University on Earnings: A Discontinuity-Based Approach.” Review of Economics and Statistics. 91(4): 717-724. (optional)

K. November 4 — Social v. Private Returns to Education

Andrew Weiss (1995). “Human Capital vs. Signaling Explanations of Wages.” Journal of Economic Perspectives. 9(4): 133-154.

Paul Taubman and Terence Wales (1975). “Education as an Investment and a Screening Device” in Education, Income, and Human Behavior, F. Thomas Juster, editor. New York City, NY: National Bureau of Economic Research. (optional)

Michael Spence (1973). “Job Market Signaling.” Quarterly Journal of Economics. 87(3): 355-374.

Barbara L. Wolfe and Robert H. Haveman (2003). “Social and Nonmarket Benefits from Education in an Advanced Economy” in Education in the 21st Century: Meeting the Challenges of a Changing World, Yolanda Kodrzycki, ed. Boston: Federal Reserve Bank of Boston.

Philip Oreopoulos and Kjell G. Salvanes (2011). “Priceless: The Nonpecuniary Benefits of Schooling.” Journal of Economic Perspectives. 25(1): 159-184.

David Neumark, Hans P. Johnson, and Mariasol Cuellar Mejia. “Future Skill Shortages in the U.S. Economy?” Cambridge, MA: National Bureau of Economic Research, Working Paper 17213.

Wim Groot and Henriette Massen van den Brink (2000). “Overeducation in the Labor Market: A Meta-Analysis.” Economics of Education Review. 19(2): 149-158.

S. Rubb (2003). “Overeducation in the Labor Market: A Comment and Re-Analysis

of a Meta-Analysis.” *Economics of Education Review*. 22(6): 621-629.

L. November 11—Discrimination

Joseph G. Altonji and Rebecca M. Blank (1999). “Race and Gender in the Labor Market” In Handbook of Labor Economics, Vol. 3, Orley Ashenfelter and David Card, Editors. New York: Elsevier.

Harry J. Holzer and David Neumark (2006). “Affirmative Action: What Do We Know?” Journal of Policy Analysis and Management. 25(2): 463-490.

Roland G. Fryer, Jr. and Glenn C. Loury (2005). “Affirmative Action and Its Mythology.” Journal of Economic Perspectives. 19(3): 147-162.

Glen G. Cain (1986). “The Economic Analysis of Labor Market Discrimination: A survey” in Handbook of Labor Economics, Vol. 1, Orley Ashenfelter and Richard Layard, Editors. New York: Elsevier. (optional)

Harry Holzer and David Neumark (2000). “Assessing Affirmative Action.” Journal of Economic Literature. 38(3): 483-568. (optional)

M. November 18—Occupational Training and Health

Daniel Friedlander, David H. Greenberg, and Philip K. Robins (1997). “Evaluating Government Training Programs for the Economically Disadvantaged.” Journal of Economic Literature. 35(4): 1809-1855.

Carolyn J Heinrich, Peter R Mueser, Kenneth R Troske, Kyung-Seong Jeon, and Daver C Kahvecioglu (2013). Do Public Employment and Training Programs Work? *IZA Journal of Labor Economics*, 2(6).

Louis Jacobson and Ian Petta (2000). Measuring the Effect of Public Labor exchange (PLX) Referrals and Placements in Washington and Oregon. Rockville, MD: Westat. Optional

Christopher T. King and Carolyn J. Heinrich (2011). “How Effective Are Workforce Development Programs? Implications for U.S. Workforce Policies.” Unpublished paper.

Sherman Folland, Allen C. Goodman, and Miron Santo (2013). The Economics of Health Care. Upper Saddle River, NJ: Pearson, pp. 129-147.

Rexford E. Santerre and Stephen P. Neun (2013). Health Economics. Mason, OH: South-Western, pp. 61-82.

Michael Grossman (1972). “On the Concept of Health Capital and the Demand for Health.” Journal of Political Economy. 80(2): 223-255. Optional. (Don’t worry if you cannot follow the math.)

N. November 25—Course Wrap-Up Paper Presentations

O. December 2 or Dec. 9--- Paper Presentations

Assigned Books for Summaries

Each student, over the course of the semester, is to read and write a 7-10 page critical summary of one book or monograph. Each student is to identify his or her top 3 choices for books to read, in priority order, by Friday, Aug. 29. We will then make book assignments on or before the second class session. Students can suggest books to read and summarize that are not on the list below with instructor approval.

The books available for summary are as follows:

Vito Tanzi, 2012. Government vs. Markets: The Changing Role of the State.
Harvard University Press.

Christopher Howard, 1999. The Hidden Welfare State. Princeton University Press.

David Weimer and Aidan Vining, 2009. Investing in the Disadvantaged: Assessing the Benefits and Costs

Akerlof and Shiller, 2009. Animal Spirits: How Human Psychology Drives the Economy and Why it Matters for Global Capitalism

Sabina Alkire, 2010. The Capability Approach: Concepts, Measures and Applications.
Cambridge University Press.

Peter Lindert, 2004. Growing Public Volume 1, The Story: Social Spending and Economic Growth Since the Eighteenth Century. Cambridge University Press.

David Wise, 2009. Developments in the Economics of Aging. University of Chicago Press.

Angus Deaton, 2013. The Great Escape: Health, Wealth, and the Origins of Inequality.

Lane Kenworthy, 2014. Social Democratic America. Oxford University Press.

David Colander and Roland Kupers, 2014. Complexity and the Art of Public Policy: Solving Society's Problems from the Bottom Up. Princeton University Press.

Thomas Piketty, 2014. Capital in the 21st Century. Harvard University Press.

Gøsta Esping-Anderson, 1999. The Three Faces of Welfare Capitalism. Princeton University Press.

Akerlof and Cranton, 2010. Identity Economics: How Our Identities Shape Our

Work, Wages, and Well-Being. Princeton University Press.

Douglas Hough, 2013. Irrationality in Health Care. Stanford Economics and Finance.

Richard Freeman (1976). The Overeducated American. New York City, NY: Academic Press.

Murnane, Methods Matter: Improving Causal Inference in Educational and Social Science Research.

Larry L. Leslie and Paul T. Brinkman. The Economic Value of Higher Education. (1988). New York: Macmillan Publishing Company.

Barry R. Chiswick (2005). The Economics of Immigration. Northampton, MA: Edward Elgar Publishing.

George Borjas (1999). Heaven's Door: Immigration Policy and the American Economy. Princeton, NJ: Princeton University Press.

Barry R. Chiswick and Paul W. Miller (2007). The Economics of Language: International Analyses. New York: Routledge.

Barry R. Chiswick, Editor. (2011). High-Skilled Immigration in a Global Labor Market. American Enterprise Institute.

Gary S. Becker (1971). The Economics of Discrimination. Chicago, IL: University of Chicago Press.

James J. Heckman, Robert J. LaLonde, and Jeffrey A. Smith (1999). "The Economics and Econometrics of Active Labor Market Programs." In Handbook of Labor Economics, Vol. 3, Orley Ashenfelter and David Card, Editors. New York: Elsevier.

Stephen A. Wandner (2010). Solving the Reemployment Puzzle: From Research to Policy. Kalamazoo, MI: Upjohn Institute Press.

Douglas J. Besharov and Phoebe H. Cottingham, Editors. (2011). The Workforce Investment Act: Implementation Experiences and Evaluation Findings. . Kalamazoo, MI: Upjohn Institute Press.

Major Paper Instructions

Each student is required to prepare a major research paper over the course of the semester. This paper should focus on one (or more, if appropriate) of the research areas introduced over the course of the semester. The more important two criteria for the paper topic are as follows:

- The paper should focus on a question or issue of interest to the student.
- The paper should do something for the student beyond just satisfying a requirement for this course. For example, the paper could be the start of a literature review for a topic that the student's wishes to explore for a dissertation topic. The goal might also be to produce something that is publishable.
- Many possible topics and approaches are possible. .

Each student should identify a topic by class on Tuesday, September 25th, and should provide a one to two page proposal in class (or by email) on that day. The paper itself will be due on Tuesday, December 11th. You should feel free to contact Professors Barnow or Cordes about appropriate paper topics, as well as sources for your individual papers.

Students will make an oral presentation, summarizing their research, on either Dec. 3. Thus, while you do not need to have the paper finalized by that date, the research needs to be sufficiently complete for you to make a thorough presentation.