

**ECONOMICS 152: PUBLIC ECONOMICS, EXPENDITURES II**  
**Income Redistribution and Social Insurance**

Spring 2014, Ledden Auditorium, MW 6:30-7:50pm

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**Office Hours:** Mon. 10:30-11:30am  
Wed. 1:30-2:30pm  
Also available by appointment.

Course Goals: This course will help you understand the role of the government in the economy from both a theoretical and an empirical perspective. It will also teach you how to analyze two broad categories of government expenditure policies and programs.

Prerequisites: This course is an applied microeconomic course. Economics 100B (or 170B) is a required prerequisite.

Class Meetings: Lectures will meet Mondays and Wednesdays 6:30-7:50pm in Ledden Auditorium in the Humanities and Social Sciences Building. The audio from the lectures may be podcast and posted at <http://podcast.ucsd.edu> if technology permits.

Web Site: The course web site is accessible through WebCT (<http://webct.ucsd.edu>). Your WebCT username and password are the same as your UCSD (ACS) e-mail username and password. Lecture notes, problem sets, and other support materials will be posted there.

Assessment:

**Three exams.** The midterm exams will be held during regular class periods. The final exam will be cumulative. There will be no make-up exams.

Midterm 1: Wednesday, April 30 <sup>th</sup> (in class)	33%
Midterm 2: Wednesday, May 28 <sup>th</sup> (in class)	33%
Final exam: Wednesday, June 11 (7:00-10:00pm)	34%

*Administrative Issues:*

(1) Exams are closed book: you may not use any notes, electronic devices, books or consult other classmates. If you believe an exam has not been graded properly, you may ask for a re-grade. I will re-grade your entire exam. The re-graded score will be your grade for the exam. You may not ask for another re-grade or go back to your first grade.

To help maintain the integrity of the midterms and finals, we will require you to show your student ID when turning in your exam.

(2) Any student found responsible for violating academic integrity will earn a failing grade for the course. In addition to the academic sanction that I impose, the Council of Deans of Student Affairs will impose a disciplinary penalty. For a review of UCSD policy, please see <http://www-senate.ucsd.edu/manual/appendices/app2.htm>.

(3) If you have a documented disability, please bring your documentation and come to talk to me as soon as possible so that I can make suitable accommodations for you. If you believe that you may have a disability and will desire accommodation, please register with the Office for Students with Disabilities, Building 202 University Center

**2. Practice problem sets** will be assigned regularly. Although the problem sets will not be collected and do not count toward your grade, working through these problems on your own will be the best way to prepare for the exams.

### Readings:

**1. Textbook readings** are listed later in the syllabus along with the course's topic outline. These readings are required in the sense that exam questions can potentially draw on assigned textbook material even if it is not discussed in lecture. All textbook readings come from *Public Finance and Public Policy*, Fourth Edition (Jonathan Gruber, Worth Publishers, 2013). The text is available for purchase at the bookstore and on reserve at the Social Sciences Library. Useful support materials can be found at the book's companion web site (<http://www.worthpublishers.com/gruber>).

**2. Supplemental readings** are also listed below. These readings are intended to provide you with richer linkages between course material, economic research, and real world policy. The content of these readings will only be tested if a) it is clearly covered in lecture, or b) I tell you prior to an exam that a particular reading will be covered.

### Notable Course Dates:

Wednesday, April 30<sup>th</sup> (Midterm 1 in class)  
Monday, April 14<sup>th</sup> (No Class)  
Wednesday, May 28<sup>th</sup> (Midterm 2 in class)  
Monday, May 26<sup>th</sup> (Memorial Day Holiday)  
Wednesday, June 11 (Final exam, 7:00-10:00pm)

Course outline:

**Weeks 1 through 3**

1. Introduction to the U.S. Public Sector

*Textbook*

Gruber Chapter 1

2. Microeconomic Underpinnings of the Analysis of Tax and Transfer Programs

*Textbook*

Gruber Chapter 2 pp. 25-52

3. Developments in Inequality and the Rationale for Redistribution

2.1 Poverty and inequality in the U.S.

*Textbook*

Gruber Chapter 17 pp. 489-497

*Supplemental*

- Meyer, Bruce D., and James X. Sullivan. "Winning the War: Poverty from the Great Society to the Great Recession." *Brookings Papers on Economic Activity* 2012.2 (2012): 133-200. (Available here: [http://www.brookings.edu/~media/Projects/BPEA/Fall%202012/2012b\\_Meyer.pdf](http://www.brookings.edu/~media/Projects/BPEA/Fall%202012/2012b_Meyer.pdf)).
- David, H., Lawrence F. Katz, and Melissa S. Kearney. *The polarization of the US labor market*. No. w11986. National Bureau of Economic Research, 2006. (Available here: [http://www.nber.org/papers/w11986.pdf?new\\_window=1](http://www.nber.org/papers/w11986.pdf?new_window=1))

2.2 Justifications for government intervention

*Textbook*

Gruber Chapter 2 pp. 52-7; Chapter 20 pp. 607-611

*Supplemental*

- Diamond, Peter, and Emmanuel Saez. "The case for a progressive tax: from basic research to policy recommendations." *The Journal of Economic Perspectives* 25.4 (2011): 165-190. (Available here: <http://www.ingentaconnect.com/content/aea/jep/2011/00000025/00000004/art00008>)
- Okun, Arthur M. "Equality and efficiency: The big tradeoff." *Brookings Institution, Washington, DC* (1977). (Available here: <http://www.brookings.edu/papers/1977/01/okun>)

[http://www.aspeninstitute.org/sites/default/files/content/docs/OKUN\\_EQUALITY\\_AND\\_EFFICIENCY\\_\(AS08\).PDF](http://www.aspeninstitute.org/sites/default/files/content/docs/OKUN_EQUALITY_AND_EFFICIENCY_(AS08).PDF)).

#### 4. The Cost of Financing Redistributive Programs

*Textbook*

Gruber Chapter 20 pp. 589-601

*Supplemental*

- Feldstein, Martin. "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act." *The Journal of Political Economy* 103.3 (1995): 551-572. (Available here: <http://piketty.pse.ens.fr/fichiers/Feldstein1995.pdf>).
- Feldstein, Martin. "Tax avoidance and the deadweight loss of the income tax." *Review of Economics and Statistics* 81.4 (1999): 674-680. (Available here: <http://www.mitpressjournals.org/doi/pdfplus/10.1162/003465399558391>)
- Slemrod, Joel. "Methodological Issues in Measuring and Interpreting Taxable Income Elasticities." *National Tax Journal* 51.4 (1998): 773-88. (Available here: [http://ntj.tax.org/wwtax/ntjrec.nsf/notesview/097EEDC7FD15BE4785256AF C007EFE09/\\$file/v51n4773.pdf](http://ntj.tax.org/wwtax/ntjrec.nsf/notesview/097EEDC7FD15BE4785256AF C007EFE09/$file/v51n4773.pdf)).

### **Weeks 4 and 5**

#### 5. Design of Redistributive Programs

##### 5.1 Welfare policy in the U.S.

*Textbook*

Gruber Chapter 17 pp. 497-500, 517-519

*Supplemental*

- Bitler, Marianne P., and Hilary W. Hoynes. "The State of the Social Safety Net in the Post-Welfare Reform Era." *Brookings Papers on Economic Activity* 2010.2 (2010): 71-127. (Available here: [http://gspp.berkeley.edu/assets/uploads/research/pdf/2010b\\_bpea\\_bitler.pdf](http://gspp.berkeley.edu/assets/uploads/research/pdf/2010b_bpea_bitler.pdf))
- Moffitt, Robert A., and John Karl Scholz. *Trends in the level and distribution of income support*. No. w15488. National Bureau of Economic Research, 2009. (Available here: <http://www.nber.org/papers/w15488.pdf>)

##### 5.2 Program design issues

*Textbook*

Gruber Chapter 2 pp. 37-43, pp. 55-57

Gruber Chapter 17 pp. 500-517

*Supplemental*

- Moffitt, Robert A. "The Negative Income Tax and the Evolution of US Welfare Policy." *Journal of Economic Perspectives* 17.3 (2003): 119-140. (Available here: <http://pubs.aeaweb.org/doi/pdfplus/10.1257/089533003769204380>).
- Akerlof, George A. "The Economics of 'Tagging' as Applied to the Optimal Income Tax, Welfare Programs, and Manpower Planning." *The American Economic Review* 68.1 (1978): 8-19. (Available here: [http://www.ssc.wisc.edu/~scholz/Teaching\\_742/Akerlof.pdf](http://www.ssc.wisc.edu/~scholz/Teaching_742/Akerlof.pdf))
- Niehaus, Paul and Sukhtankar, Sandip, (2013), "The marginal rate of corruption in public programs: Evidence from India," *Journal of Public Economics*, 104, p. 52-64. (Available here: <http://econweb.ucsd.edu/~pniehaus/papers/leakage.pdf>)

## **Weeks 6 through 8**

### 6. Social Insurance (excluding health)

#### 6.1 Key programs and justifications for government intervention

*Textbook*

Gruber Chapter 12 pp. 321-323, 335-339

*Supplemental*

- Feldstein, Martin. "Rethinking Social Insurance." *American Economic Review*(2005). (Available here: <http://www.nber.org/papers/w11250>)

#### 6.2 Theory of insurance markets

*Textbook*

Gruber Chapter 12 pp. 323-334, 339-349

*Supplemental*

- Einav, Liran, and Amy Finkelstein. "Selection in Insurance Markets: Theory and Empirics in Pictures." *The Journal of Economic Perspectives* 25.1 (2011): 115-138. (Available here: <http://www.ingentaconnect.com/content/aea/jep/2011/00000025/00000001/art00006>)
- Rothschild, Michael, and Joseph Stiglitz. "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect

Information." *The Quarterly Journal of Economics* 90.4 (1976): 629-649.  
(Available here:  
[http://economics.sas.upenn.edu/~hfang/teaching/socialinsurance/readings/fuda\\_n\\_hsbcr/Rothschild\\_Stiglitz76\(2.2\).pdf](http://economics.sas.upenn.edu/~hfang/teaching/socialinsurance/readings/fuda_n_hsbcr/Rothschild_Stiglitz76(2.2).pdf))

### 6.3 Financing social insurance

#### *Textbook*

Gruber Ch. 20 pp. 612-616

#### *Supplemental*

- Summers, Lawrence H. "Some simple economics of mandated benefits." *The American Economic Review* (1989): 177-183. (Available here: <http://www.jstor.org/stable/1827753>).

### 6.4 Unemployment insurance

#### *Textbook*

Gruber Chapter 14 pp. 391-395, 397-404, 408-411, 412-415

#### *Supplemental*

- Nicholson, Walter, and Karen Needels. "Unemployment insurance: Strengthening the relationship between theory and policy." *The Journal of Economic Perspectives* (2006): 47-70. (Available here: <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.20.3.47>)

### 6.4 Additional Applications: Social Security, Disability, and Workers' Comp.

#### *Textbook*

Gruber Chapter 13 pp. 355-388

Gruber Chapter 14 pp. 395-396, 404-405

Gruber Chapter 14 pp. 396-397, 405-408, 404-5

#### *Supplemental*

- Duggan, Mark, and Scott A. Imberman, "Why Are the Disability Rolls Skyrocketing? The Contribution of Population Characteristics, Economic Conditions, and Program Generosity," in Health at Older Ages: The Causes and Consequences of Declining Disability among the Elderly, edited by David M. Cutler and David Wise, 2009. (Available here: <http://www.nber.org/chapters/c11119.pdf>).
- Autor, David H. *The unsustainable rise of the disability rolls in the United States: Causes, consequences, and policy options*. No. w17697. National Bureau of Economic Research, 2011. (Available here: <http://www.nber.org/papers/w17697>))

## **Weeks 9 and 10**

### 7. Health-Based Social Insurance

*Textbook*  
Gruber Chapter 15

*Supplemental*

- Baicker, Katherine, and Amitabh Chandra. "Myths and misconceptions about US health insurance." *Health Affairs* 27.6 (2008): w533-w543. (Available here: <http://content.healthaffairs.org/content/27/6/w533.full.pdf+html>)
- Clemens, Jeffrey. "Regulatory Redistribution in the Market for Health Insurance." *National Bureau of Economic Research*, Working Paper 19904." (Available here: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2033424](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2033424))