

Economics 232:
Government Expenditures, Redistribution and Social Insurance
Spring 2006

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Objective: The principal objective of this course is to provide an understanding of the role of government intervention in the economy in two broad areas of expenditure from both a theoretical and an empirical perspective. The emphasis will be on learning techniques that can be applied to produce original research and to critically analyze existing research in the field of public economics.

Class Meetings: Lecture will meet Monday from 8:00 to 10:50 in Economics 210.

Office Hours: Office hours are by appointment. See me in person, call or e-mail to set up a convenient time to meet.

Requirements: There are five sets of requirements for this course:

1. Readings

The required readings are primarily journal articles and these will be made available to you on the class web page: <http://dss.ucsd.edu/~jbcullen/econ232/econ232.html>. You can also get there by going to my home page (<http://dss.ucsd.edu/~jbcullen>) and clicking on the button for Econ 232.

2. Paper presentation

I will ask each of you (perhaps in small groups) to present an assigned paper during one of the regular class periods. The papers will be empirical papers that use specific methodologies to attempt to identify causal relationships. The goals are for you to: i) place the issue addressed in the paper within the context of the course themes; ii) explain the strategy used in the paper and relate it to the overview of program evaluation methods provided in lecture. The presentation is worth 15% of your grade.

3. Problem sets

There will be 2 problem sets. The problem sets represent 20% of your grade (each counts 10%). Working through these will be good preparation for the final exam. Feel free to cooperate on the problem sets. Each person must turn in his/her own copy and write the names of collaborators at the top of the assignment. Problem sets are due at the beginning of class. No late assignments will be accepted.

4. Referee report

I will assign a paper for you to referee. The referee report should summarize the paper and provide a critical discussion. It should be 2-5 single-spaced pages in length. The report will count for 15% of your grade.

5. Final exam

There will be a final cumulative exam administered during final exam week that is worth 50% of your grade.

Seminars: I encourage you to attend the Applied Seminar (which usually meets Mondays from 3:30 to 5:00 in room 300) and the more informal Applied Lunch Talk (which usually meets on Fridays from 12:00-1:30 in room 300). Attending seminars is among the best ways to facilitate the transition from coursework to research.

Econ 232 Reading List

I. Redistribution

A. Justification for government involvement

- R. Tresch. 2002. Public finance: a normative theory. San Diego, CA: Academic Press. Chapter 4, pp. 103-43.
- H. Varian. 1980. Redistributive taxation as social insurance. *Journal of Public Economics* 14: 49-68.

B. Poverty and inequality: measurement and U.S. trends

- **D. Cutler and L. Katz. 1991. Macroeconomic performance and the disadvantaged. *Brookings Papers on Economic Activity* 2: 1-74.**
- J. Hines, H. Hoynes, and A. Krueger. 2001. Another look at whether a rising tide lifts all boats. NBER WP 8412.
- D. Slesnick. 1993. Gaining ground: poverty in the postwar United States. *Journal of Political Economy* 101: 1-38.

C. Transfer programs in the U.S.

- U.S. House of Representatives. Annual. Green book: background material and data on programs within the jurisdiction of the Committee on Ways and Means. Washington: U.S. Government Printing Office.
- Means-tested transfer programs in the U.S. 2003. R. Moffitt, ed. Chicago: The University of Chicago Press. (Introduction available as NBER WP 8730).
- **R. Blank and D. Ellwood. 2001. The Clinton legacy for America's poor. NBER WP 8437.**

D. Program design

- G. Akerlof. 1978. The economics of tagging as applied to the optimal income tax, welfare programs, and manpower planning. *American Economic Review* 68(1): 8-19.
- A. Nichols and R. Zeckhauser. 1982. Targeting transfers through restrictions on recipients. *American Economic Review* 72 (May): 372-377.
- C. Blackorby and D. Donaldson. 1998. Cash versus kind, self-selection, and efficient transfers. *American Economic Review* 78: 691-700.
- S. Coate, S. Johnson, and R. Zeckhauser. 1994. Pecuniary redistribution through in-kind programs. *Journal of Public Economics* 55: 19-40.
- **T. Besley and S. Coate. 1992. Workfare versus welfare: incentive arguments for work requirements in poverty alleviation programs. *American Economic Review* 82(1): 249-61.**
- T. Besley and S. Coate. 1995. The design of income maintenance programmes. *The Review of Economic Studies* 62: 187-221.

- E. Saez. 2000. Optimal income transfer programs: intensive versus extensive labor supply responses. NBER WP 7708.

E. Program evaluation

- **R. LaLonde. 1986. Evaluating econometric evaluations of training programs with experimental data. *American Economic Review* 76: 604-620.**
- G. Burtless and L. Orr. 1986. Are classical experiments needed for manpower policy? *Journal of Human Resources* 21: 606-639.
- O. Ashenfelter and D. Card. 1985. Using the longitudinal structure of earnings to estimate the effect of training programs. *Review of Economics and Statistics* 67: 648-660.
- **J. Heckman and V. Hotz. 1989. Choosing among alternative non-experimental methods for estimating the impact of social programs: the case of manpower training. *Journal of the American Statistical Association* 84: 862-880.**
- R. Dehejia and S. Wahba. 1999. Causal effects in non-experimental studies: re-evaluating the evaluation of training programs. *Journal of the American Statistical Association* 94: 1053-62.
- R. Agodini and M. Dynarski. 2001. Are experiments the only option? A look at dropout prevention programs. *Mathematica Policy Research* (No. 8723-300).
- J. Angrist, G. Imbens, and D. Rubin. 1996. Identification of causal effects using instrumental variables. *Journal of the American Statistical Association* 91: 444-472.
- **J. Heckman. 1998. Instrumental variables: a study of the implicit behavioral assumptions used in making program evaluations. *Journal of Human Resources* 32(3): 441-62.**

F. Evidence on the impact of transfer programs

- **R. Moffitt. 1992. Incentive effects of the U.S. welfare system: a review. *Journal of Economic Literature* 30: 1-61.**
- **R. Moffitt. 1983. An economic model of welfare stigma. *American Economic Review* 73: 1023-1035.**
- **M. Bitler, J. Gelbach, and H. Hoynes. 2003. What mean impacts miss: distributional effects of welfare reform. NBER Working Paper 10121.**
- **T. Lemieux and K. Milligan. 2004. Incentive effects of social assistance: a regression discontinuity approach. NBER WP 10541.**
- H. Hoynes. 1997. Does welfare play any role in female headship decisions? *Journal of Public Economics* 65(2): 89-117.
- B. Meyer. 2000. Do the poor move to receive higher welfare benefits? Northwestern University Working Paper.
- B. Meyer and D. Rosenbaum. 2001. Welfare, the earned income tax credit, and the labor supply of single mothers. *Quarterly Journal of Economics* 116(3): 1063-1114.
- J. Currie and N. Cole. 1993. Welfare and child health: the link between AFDC

- participation and birth weight. *American Economic Review* 83: 971-985.
- J. Gruber. 2000. Cash welfare as a consumption smoothing device for single mothers. *Journal of Public Economics* 75(2): 157-82.
 - **J. Currie and A. Yelowitz. 2000. Are public housing projects good for kids? *Journal of Public Economics* 75(1): 99-124.**
 - **J. Currie and D. Thomas. 1995. Does Head Start make a difference? *American Economic Review* 85: 341-364.**
 - B. Meyer and J. Sullivan. 2001. The effects of welfare and tax reform: the material well-being of single mothers in the 1980s and 1990s. NBER WP 8298.
 - **F. Mazzolari. 2004. What accounts for recent declines in welfare caseloads in the U.S.? The role of time limits. UCSD mimeo (November).**

II. Social Insurance

A. Justification for government involvement

- **M. Rothschild and J. Stiglitz. 1976. Equilibrium in competitive insurance markets. *Quarterly Journal of Economics*: 629-649.**
- C. Wilson. 1980. The nature of equilibrium in markets with adverse selection. *Bell Journal of Economics* (Spring): 108-130.
- **A. Finkelstein. 2002. When can partial public insurance produce Pareto improvements? NBER WP 9035.**
- S. Shavell. 1979. On moral hazard and insurance. *Quarterly Journal of Economics* 93: 541-562.
- A. Atkinson. 1987. Income maintenance and social insurance. In A. Auerbach and M. Feldstein, eds., *Handbook of Public Economics Volume 2* (Amsterdam: North-Holland, 1987), 779-908.
- P. Diamond. 1998. Issues in social insurance. In Jacobs, Kalai, and Kamein, eds. *Frontiers of Research in Economic Theory: The Nancy L. Schwartz Memorial Lectures* (Cambridge University Press).
- M. Feldstein. 1997. Social Insurance. *Public Policy* 25: 81-115.

B. Empirical evidence on adverse selection

- **D. Cutler and R. Zeckhauser. 1997. Adverse selection in health insurance. NBER WP 6107.**
- **A. Finkelstein and K. McGarry. 2003. Private information and its effect on market equilibrium: new evidence from long-term care insurance. NBER WP 9957.**

C. Financing social insurance

- L. Summers. 1989. Some simple economics of mandated benefits. *American Economic Review* 79: 177-184.
- **J. Gruber. 1994. The incidence of mandated maternity benefits. *American Economic Review* 84(3): 622-41.**

- A. Auerbach and L. Kotlikoff. 1985. The efficiency gains from Social Security benefits-tax linkage. NBER WP 1645.

D. Workers' compensation

- P. Fishback and S. Kantor. 1995. Did workers pay for the passage of workers' compensation laws? *Quarterly Journal of Economics* 110: 713-742.
- D. Card and B. McCall. 1996. Is Workers' Compensation covering uninsured medical costs? Evidence from the Monday effect. *Industrial and Labor Relations Review* 49(4): 690-706.
- **B. Meyer, K. Viscusi, and D. Durbin. 1995. Workers' Compensation and injury duration: evidence from a natural experiment. *American Economic Review* 85 (June): 322-340.**
- J. Ruser. 1998. Does Workers' Compensation encourage hard to diagnose injuries? *Journal of Risk and Insurance* 65: 101-24.

E. Issues in unemployment insurance: employees

- M. Baily. 1978. Some aspects of optimal unemployment insurance. *Journal of Public Economics* 10: 379-402.
- S. Shavell and L. Weiss. 1979. The optimal payment of unemployment insurance benefits over time. *Journal of Political Economy* 87:1347-1362.
- P. Cahuc and E. Lehmann. 2000. Should unemployment benefits decrease with the unemployment spell? *Journal of Public Economics* 77: 135-53.
- T. Lancaster. 1979. Econometric methods for the duration of unemployment. *Econometrica* 47: 939-956.
- N. Keifer. 1988. Economic duration data and hazard functions. *Journal of Economic Literature* 26(2): 646-79.
- **L. Katz and B. Meyer. 1990. The impact of potential duration of unemployment benefits on the duration of unemployment. *Journal of Public Economics* 41: 45-72.**
- B. Meyer. 1990. Unemployment insurance and unemployment spells. *Econometrica* 58: 757-782.
- P. Anderson and B. Meyer. 2000. The effects of unemployment insurance payroll tax on wages, employment, claims, and denial. *Journal of Public Economics* 78:81-106.
- D. Card and P. Levine. 1998. Extended benefits and the duration of UI spells: evidence from the New Jersey extended benefits program. NBER WP 6714.
- P. Levine. 1993. Spillover effects between the insured and uninsured employed. *Industrial and Labor Relations Review* 47(1): 73-86.
- B. Meyer. 1996. What have we learned from the Illinois reemployment bonus experiments. *Journal of Labor Economics* 14: 26-51.
- D. Blau and P. Robins. 1990. Job search outcomes for the employed and unemployed. *Journal of Political Economy* 98: 637-655.
- J. Cullen and J. Gruber. 2000. Does unemployment insurance crowd out spousal labor supply? *Journal of Labor Economics* 18: 546-72.

- **J. Gruber. 1997. The consumption smoothing benefits of unemployment insurance. *American Economic Review* 87(1): 192-205.**
- **R. Chetty. 2004. Optimal unemployment insurance when income effects are large. NBER WP 10500.**

F. Issues in unemployment insurance: employers

- P. Anderson and B. Meyer. 1993. The unemployment insurance payroll tax and interindustry and interfirm subsidies. In J. Poterba, ed. *Tax Policy and the Economy* 7, 111-144.
- M. Feldstein. 1976. Temporary layoffs in the theory of unemployment. *Journal of Political Economy* 84: 937-958.
- M. Feldstein. 1978. Effect of unemployment insurance on temporary layoff unemployment. *American Economic Review* 68: 834-46.
- **R. Topel. 1983. On layoffs and unemployment insurance. *American Economic Review* 73: 541-559.**

G. Social Security

- M. Feldstein and J. Liebman. 2001. Social Security. NBER WP 8451.
- J. Gruber and D. Wise, eds. 2004. *Social Security and Retirement around the World*. Chicago: University of Chicago Press.
- **L. Friedberg. 2000. The labor supply effects of the Social Security earnings test. *Review of Economics and Statistics* 82(1):48-63.**