

# ECO 4504: Public Economics

University of Florida - Fall 2022

## Instructor

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*Office hours:* Tuesdays, 1:50-3:50pm

## TA

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## Course description

This course is on the role of government in the economy. In the course, we will try to understand why governments intervene in the economy, the tools and mechanisms that governments use in intervening, and the effects of their interventions. In this way, we will consider both normative questions (what should governments do?) and positive ones (what are the impacts of actual government policies?).

In terms of course structure, we will begin by covering some necessary tools and concepts. We will then discuss externalities, public goods, social insurance, and tax policy. For each topic, we will combine economic theory with applications based on real-world policy issues. Some of the issues that we'll explore include: air pollution, climate change, residential segregation, health insurance, inequality, and the social safety net.

A key goal of the course will be to introduce students to empirical research in public economics. As such, we will read recent research papers and discuss data and empirical strategies.

## Prerequisites

The prerequisites for the course are the Principles classes (ECO 2013 and ECO 2023), Intermediate Microeconomics (ECO 3101 or ECP 3703) and familiarity with calculus (MAC 2233 or higher). Also, while it is not necessary, it would be helpful to have taken (or be taking) econometrics (ECO 4421).

## Class meetings and office hours

Classes are scheduled to take place from 11:45am-1:40pm on Tuesdays and Thursdays. These will occur in Matherly Hall Room 0112.

I will hold office hours on Tuesdays from 1:50-3:50pm. The TA, Yuchen Zhu, will hold office hours at a time TBA. Office hours will occur over Zoom. The Zoom links can be found on the course webpage on Canvas. If you would like to schedule a meeting at a different time, please email us.

## Course modality and attendance

This is a fully in-person course. All midterm exams will take place in person, during our scheduled class times.

Make-up assignments and exams will be arranged only for absences that are explicitly covered by the [UF Attendance Policy](#). Whenever possible, you should reach out at least five business days in advance to arrange a make-up assignment or exam. Of course, this will not always be possible. Unforeseen absences and emergencies occur and can be excused without such advance notice. In most cases, you will be asked to provide evidence or documentation of an absence that is explicitly excused by the UF Attendance Policy. Absences related to religious holidays and worship do not require this documentation.

## Textbook and readings

The class will rely on a textbook by Jonathan Gruber:

Gruber, Jonathan. *Public Finance and Public Policy*. 7th ed. Worth Publishers, 2022.

It can be bought or rented from Amazon or Macmillan Learning. Using the 6th edition is also permissible. I will place all other readings on Canvas.

## Midterm exams

The course will have two non-cumulative midterm exams. During the class session before each exam, I will hold a review session. The dates and topics for the exams are shown below:

Table 1: Exam details

Exam	Date	Topics
1	10/13	Externalities and public goods
2	11/17	Political economy and social insurance

## Policy essay

The last assignment in the course will be a policy essay. This will be a 5-7 page paper in which you analyze a proposed policy. In the essay, you will discuss the motivation for the policy, how the policy should be designed, and its likely costs and benefits. Your analysis will draw from the economic theory that we study in class, and you will be required to use data to support your claims. The policy essay will be due on 12/15.

I will provide details on the specific prompt of the policy essay at a later date.

## Homework

The course will have frequent homework assignments. These will consist of (i) exercises that let you practice and absorb the theory and (ii) short answer questions related to readings and policy issues. For the homework assignments, late submissions will not be accepted. However, we will drop the assignment with the lowest grade. Homework assignments will be graded by the TA. As such, students can direct most questions about these to him.

Homework assignments should be typed and submitted via Canvas. This will involve typing some math. I believe it is possible to do this using Word or Google Docs. However, if you plan to continue in a quantitative field, I recommend taking the time to learn LaTeX. An easy way to introduce yourself to LaTeX is through a program called LyX. LyX is free and open source, and it allows producing documents in LaTeX without having to know all the code. LyX is available at: <https://www.lyx.org/Download>.

Students are allowed to work together on homework assignments. However, each student must write up his/her own submission.

## Participation

I would like students to actively participate in class. Our class meetings are two hours long. The best way to stay engaged throughout such a lengthy period is by being an active participant.

Students should feel free to ask questions whenever something is unclear. I will also often ask questions to the class to make sure that everyone is following. Finally, on a few dates throughout the semester we will have discussion sections. I will ask everyone to read a paper in advance of our class meeting. I will also share a series of questions about the paper, and students will be required to prepare answers to these questions. Then in class, we will discuss the paper by going over the answers to the pre-assigned questions.

## Grades

The grading structure for the course will be the following:

Table 2: Grading details

Component	Percent
Exam 1	20%
Exam 2	30%
Policy essay	30%
Homework	15%
Participation	5%

Grading will be consistent with [UF policies regarding grade determination](#).

## Professionalism and Honor Code

Students are bound to not cheat or plagiarize, and are bound by The Honor Pledge which states, “We, the members of the University of Florida community, pledge to hold ourselves and our peers to the highest standards of honor and integrity by abiding by the Honor Code. On all work submitted for credit by students at the University of Florida, the following pledge is either required or implied: ‘On my honor, I have neither given nor received unauthorized aid in doing this assignment.’”

You should familiarize yourself with the [UF Student Honor Code](#). Cheating and plagiarism are not the only violations of this policy. Importantly, ignorance of a policy is not a valid reason for violating it.

## Students requiring accommodations

Students with disabilities requesting accommodations should first register with the [Disabilities Resource Center](#) (352-392-8565), providing appropriate documentation. Once registered, students will receive an accommodation letter that can be presented to the instructor when requesting accommodations. Please register at the beginning of the course if seeking accommodations.

## Course evaluations

Students are expected to provide professional and respectful feedback on the quality of instruction in this course by completing course evaluations online via GatorEvals. Students will be notified when the evaluation period opens, and can complete evaluations through the email they receive from GatorEvals, in their Canvas course menu under GatorEvals, or via [ufl.bluer.com/ufl](https://ufl.bluer.com/ufl).

## UF Teaching Center

The UF Teaching Center offers guidance on study skills and tutoring services. You can find more information at: <https://umatter.ufl.edu/office/teaching-center>.

## In-class recording

Students are allowed to record video or audio of class lectures. However, the purposes for which these recordings may be used are strictly controlled. The only allowable purposes are (1) for personal educational use, (2) in connection with a complaint to the university, or (3) as evidence in, or in preparation for, a criminal or civil proceeding. All other purposes are prohibited. Specifically, students may not publish recorded lectures without the written consent of the instructor. A class lecture is an educational presentation intended to inform or teach enrolled students about a particular subject, including any instructor-led discussions that form part of the presentation, and delivered by any instructor hired or appointed by the University, or by a guest instructor, as part of a University of Florida course. A class lecture does not include lab sessions, student presentations, clinical presentations such as patient history, academic exercises involving solely student participation, assessments (quizzes, tests, exams), field trips, private conversations between students in the class or between a student and the faculty or lecturer during a class session.

# Course schedule

The course schedule is listed below. Please see the course modules on Canvas for assigned readings.

## Introduction

- L01—08/25: Overview of the government in the economy
  - Gruber Ch. 1.
- L02—08/30: Theoretical tools
  - Gruber Ch. 2.
- L03—09/01: Theoretical and empirical tools
  - Gruber Ch. 2 and 3.
- L04—09/06: Empirical tools
  - Gruber Ch. 3.

## Externalities and public goods

- L05—09/08: Overview of externalities
  - Gruber Ch. 5.
  - Homework 1 due
- L06—09/13: Corrective taxation v. quantity regulation
  - Gruber Ch. 5.
- L07—09/15: Costs and benefits of the Clean Air Act
  - Gruber Ch. 6.0-6.2
  - Currie, Janet and Reed Walker. (2019). “What do economists have to say about the Clean Air Act 50 years after the establishment of the Environmental Protection Agency?” *Journal of Economic Perspectives*, 33 (4): 3-26
- L08—09/20: Discussion
  - Currie, Janet and Reed Walker. (2019). “What do economists have to say about the Clean Air Act 50 years after the establishment of the Environmental Protection Agency?” *Journal of Economic Perspectives*, 33 (4): 3-26
- L09—09/22: Climate change
  - Auffhammer, Maximilian. (2018). “Quantifying Economic Damages from Climate Change.” *Journal of Economic Perspectives*, 32 (4): 33-52.

- Proistosescu, Cristian and Gernot Wagner. (2020). “Uncertainties in Climate and Weather Extremes Increase the Cost of Carbon.” *One Earth*, 2 (6): 515-517.
- Homework 2 due
- L10—09/27: Internalities
  - Gruber Ch. 6.3-6.4
  - Kahneman, D. (2011). *Thinking, fast and slow*. Chapter 1.
- L11—09/29: Public goods
  - Gruber Ch. 7.0-7.2, 9.1, 10.0-10.2
- L12—10/04: Local public finance and neighborhoods
  - Chetty, Raj and Nathaniel Hendren. (2018). “The Impacts of Neighborhoods on Intergenerational Mobility II: County-Level Estimates.” *The Quarterly Journal of Economics*, 133 (3): 1163-1228
  - Chetty Raj, Peter Bergman, Stefanie Deluca, Nathan Hendren, Lawrence Katz, and Christopher Palmer. (2021). “Creating Moves to Opportunity: Experimental Evidence on Barriers to Neighborhood Choice.” Working paper.
- L13—10/06: Competition and choice in education markets
  - Abdulkadiroglu, Atila, Parag A. Pathak, Jonathan Schellenberg, and Christopher R. Walters. 2020. “Do Parents Value School Effectiveness?” *American Economic Review*, 110 (5): 1502-39.
- L14—10/11: Review session
  - Homework 3 due
- L15—10/13: Exam 1

## Political economy

- L16—10/18: Political economy and voting
  - Gruber Ch. 9

## Social insurance

- L17—10/20: Overview of social insurance
  - Gruber Ch. 12
- L18—10/25: Adverse selection and moral hazard
  - Gruber Ch. 12
- L19—10/27: Social security

- Gruber Ch. 13
- L20—11/01: Health insurance theory
  - Gruber Ch. 15
  - Homework 4 due
- L21—11/03: Healthcare programs and reform
  - Gruber Ch. 16
- L22—11/08: Discussion
  - Johnson, Normon, Sarah Miller, and Laura R. Wherry. (2021). “Medicaid and Mortality: New Evidence from Linked Survey and Administrative Data”. *Quarterly Journal of Economics*.
- L23—11/10: Unemployment insurance, Disability insurance, and Worker’s Comp.
  - Gruber Ch. 14
  - Maestas Nicole, Kathleen J. Mullen, and Alexander Strand. (2013). “Does Disability Insurance Receipt Discourage Work? Using Examiner Assignment to Estimate Causal Effects of SSDI Receipt.” *American Economic Review*. 103(5): 1797-1829
- L24—11/15: Review
  - Homework 5 due
- L25—11/17: Exam 2

## **Taxes and redistribution**

- L26—11/22: Income and wealth inequality
  - Gruber Ch. 17.0-17.1, 18.0-18.3
  - Saez, Emmanuel and Gabriel Zucman. (2020). “The Rise of Income and Wealth Inequality in America: Evidence from Distributional Macroeconomic Accounts.” *Journal of Economic Perspectives*, 34 (4): 3-26
- L27—11/29: Redistribution as investment in human capital
  - Gruber Ch. 17.2
  - Bailey, Martha, Hilary Hoynes, Maya Rossin-Slater, and Reed Walker. (2020). “Is the social safety net a long-term investment? Large-scale evidence from the Food Stamps program.” NBER Working Paper 26942
  - Hendren, Nathaniel, and Ben Sprung-Keyser. (2020). “A Unified Welfare Analysis of Government Policies.” *Quarterly Journal of Economics*, 135 (3): 1209-1318
- L28—12/01: The moral hazard costs of redistribution

- Gruber Chapter 17.3, 21.0-21.2
- Hoynes, Hilary and Jesse Rothstein. (2019). “Universal Basic Income in the United States and Advanced Countries.” *Annual Review of Economics*, 11(1): 929-958
- L29—12/06: Reducing the moral hazard costs of redistribution
  - Gruber Chapter 17.4-17.5, 21.3-21.4
  - Kleven, Henrik Jacobsen. 2014. “How Can Scandinavians Tax So Much?” *Journal of Economic Perspectives*, 28 (4): 77-98.
  - Homework 6 due