

ECP 6035: Cost-Benefit Analysis

University of Florida - Spring 2023

Instructor

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TA

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Course description

This course is on cost-benefit analysis of public policies. In the course, we will examine when and how governments should intervene in the economy. We will also evaluate the effectiveness of a number of prominent government interventions.

In terms of course structure, we will begin by covering some necessary tools and concepts, including discounting and opportunity costs. We will then study the costs and benefits of various real-world policies. These will include health and environmental policies, public goods policies, social insurance programs, and policies related to redistribution and the social safety net.

A key goal of the course will be to strengthen students' ability to absorb and interpret empirical research in economics. As such, we will read and discuss a variety of recent research papers.

Prerequisites

The only prerequisite for the course is ECO 5114: Microeconomic Analysis. However, it would be helpful to have a strong background in econometrics.

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 0014.

I will hold office hours on Thursdays from 3:00-5:00pm. The TA, Ilia Kapelevich, 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	3/07	Externalities and public goods
2	4/11	Social insurance

Final project

The course will also include a final project. This will be a presentation and a 7-page paper in which you analyze the costs and benefits of a proposed policy. You will be able to choose the policy that you consider. The presentation will occur on the last day of class. The paper will be due on May 2nd.

I will provide details on the specific prompt of the final project 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, 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 discussions. 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	20%
Final project	30%
Homework	15%
Participation	15%

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

The final letter grade distribution will be determined as follows:

Table 3: Grade scale

Score	Grade
93-100	A
90-92	A-
87-89	B+
83-86	B
80-82	B-
77-79	C+
73-76	C
70-72	C-
67-69	D+
60-66	D
0-59	E

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.bluera.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 to access the assigned readings.

Introduction

- C01—01/10: Overview of cost-benefit analysis
 - Gruber Ch. 1.
- C02—01/12: Theoretical tools
 - Gruber Ch. 2. and 8
- C03—01/17: Empirical tools
 - Gruber Ch. 3.
- C04—01/19: Empirical tools
 - Gruber Ch. 3.
- C05—01/24: Empirical tools
 - Notes

The costs and benefits of health and environmental policies

- C06—01/26: The theory of externalities
 - Gruber Ch. 5.
- C07—01/31: Paper discussion
 - Green, Colin P., John S. Heywood, and Maria Navarro. (2016). “Traffic accidents and the London congestion charge.” *Journal of Public Economics*, 133: 11-22.
- C08—02/02: The theory of environmental regulation
 - Gruber Ch. 5.
 - Homework 1 due
- C09—02/07: The 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.
- C10—02/09: Paper discussion

- Schlenker, Wolfram and W. Reed Walker. (2016). “Airports, Air Pollution, and Contemporaneous Health.” *The Review of Economic Studies*, 83 (2):768-809.
- C11—02/14: Policies to deal with 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.
- C12—02/16: Policies to deal with externalities
 - Gruber Ch. 6.3-6.4
 - Kahneman, D. (2011). *Thinking, fast and slow*. Chapter 1.
 - Colchero, M. Arantxa, Juan A. Rivera, Barry M. Popkin, Shu Wen Ng. (2017). “In Mexico, Evidence Of Sustained Consumer Response Two Years After Implementing A Sugar-Sweetened Beverage Tax.” *Health Affairs*, 36 (3): 564-571.
 - Homework 2 due

The costs and benefits of public goods policies

- C13—02/21: The theory of public goods
 - Gruber Ch. 7.0-7.2, 9.1, 10.0-10.2
- C14—02/23: 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.
 - Ainsworth, Robert, Rajeev Dehejia, Cristian Pop-Eleches, and Miguel Urquiola. (2023). “Why do households leave school value added on the table? The roles of information and preferences.” *American Economic Review*.
- C15—02/28: Neighborhood and housing policies
 - Asquith, Brian J., Evan Mast, and Davin Reed. (2021). “Local Effects of Large New Apartment Buildings in Low-Income Areas.” *The Review of Economics and Statistics*.
 - 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.
- C16—03/02: Review session
 - Homework 3 due
- C17—03/07: Exam 1

The cost and benefits of social insurance

- C18—03/09: Discuss the final project
- C19—03/21: The theory of social insurance
 - Gruber Ch. 12
- C20—03/22: Adverse selection and moral hazard
 - Gruber Ch. 12
- C21—03/28: The theory of health insurance
 - Gruber Ch. 15
 - Homework 4 due
- C22—03/30: Healthcare programs and reform
 - Gruber Ch. 16
- C23—04/04: Paper 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*.
 - Goldin, Jacob, Ithai Z Lurie, and Janet McCubbin. (2021). “Health Insurance and Mortality: Experimental Evidence from Taxpayer Outreach.” *Quarterly Journal of Economics*, 136 (1): 1-49.
- C24—04/06: Review
 - Homework 5 due
- C25—04/11: Exam 2

The costs and benefits of redistribution

- C26—04/13: Inequality and taxes
 - 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
- C27—04/18: Redistribution as investment in human capital
 - Gruber Ch. 17.2
 - Barr, Andrew and Chloe R. Gibbs. (2022). “Breaking the Cycle? Intergenerational Effects of an Antipoverty Program in Early Childhood.” *Journal of Political Economy*, 130 (12): 3253-3285.

- 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.
- C28—04/20: The moral hazard costs of redistribution
 - Gruber Chapter 17.3-17.5, 21.0-21.4
 - Hoynes, Hilary and Jesse Rothstein. (2019). “Universal Basic Income in the United States and Advanced Countries.” *Annual Review of Economics*, 11(1): 929-958
 - Kleven, Henrik Jacobsen. 2014. “How Can Scandinavians Tax So Much?” *Journal of Economic Perspectives*, 28 (4): 77-98.
- C29—04/25: Project presentations
 - Homework 6 due