

ECP 6035: Cost-Benefit Analysis

University of Florida - Spring 2022

Instructor: Robert Ainsworth (robert.ainsworth@ufl.edu)

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

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Office hours: TBA

Course description

This course is on the cost-benefit analysis of public policies. In the course, we will study 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. Meetings will occur in Matherly Hall Room 0114.

I will hold office hours on Tuesdays from 1:50-3:50pm. The TA, Emanuel Garcia Munoz, 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.

Textbook and readings

The course will use a textbook by Jonathan Gruber:

Gruber, Jonathan. *Public Finance and Public Policy*. 6th ed. Worth Publishers, 2019.

This book can be bought or rented from Amazon or Macmillan Learning. In addition, the course will rely on a variety of supplementary readings. I will place all supplementary 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	2/17	The costs and benefits of health, environmental, and public goods policies
2	3/31	The costs and benefits of social insurance programs

Final project

The last assignment in the course will be a policy essay. This will be a 7-8 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. 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, 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. It is available here: <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. In addition, I will often ask questions to the class to make sure that everyone is following.

Paper presentations

Each week a student will be required to give a 20-30 minute presentation on an empirical paper. The student will explain the question that the paper asks, summarize the paper's methodology,

present the paper's main results, and discuss the paper's limitations. On the first day of class, I will present a list of the papers that students may choose.

Grades

The grading structure for the course will be the following:

Table 2: Grading details

Component	Percent
Exam 1	20%
Exam 2	25%
Final project	30%
Homework	15%
Participation and presentations	10%

Course structure

A tentative list of the topics that we will cover is presented below. Please see the course modules on Canvas for the exact schedule.

Introduction

- Overview of public policy and cost-benefit analysis
 - Gruber Ch. 1, 8
- Theoretical tools
 - Gruber Ch. 2.
- Empirical tools
 - Gruber Ch. 3.

The costs and benefits of health and environmental policies

- The theory of externalities
 - Gruber Ch. 5.
- 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
 - Schlenker, Wolfram and Reed Walker. (2016). “Airports, Air Pollution, and Contemporaneous Health.” *Review of Economic Studies*, 83 (2): 768-809
- 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.
- Policies to deal with internalities
 - Gruber Ch. 6.3-6.4
 - Optional: Kahneman, D. (2011). *Thinking, fast and slow*. Chapter 1.

The costs and benefits of public goods policies

- The theory of public goods
 - Gruber Ch. 7, 10.0-10.2
- Neighborhood and housing policies
 - 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.
- School competition
 - Abdulkadiroglu, Atila, Parag A. Pathak, and Christopher R. Walters. (2018). “Free to Choose: Can School Choice Reduce Student Achievement?” *American Economic Journal: Applied Economics*, 10 (1): 175-206
 - Ainsworth, Robert, Rajeev Dehejia, Cristian Pop-Eleches, and Miguel Urquiola. (2021). “Information, preferences, and household demand for school value added.” Working paper.

The cost and benefits of social insurance programs

- Overview
 - Gruber Ch. 12
- Social security
 - Gruber Ch. 13
- Health insurance
 - Gruber Ch. 15-16
 - Johnson, Normon, Sarah Miller, and Laura R. Wherry. (2021). “Medicaid and Mortality: New Evidence from Linked Survey and Administrative Data”. *Quarterly Journal of Economics*.
- Unemployment Insurance, Disability, 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

The costs and benefits of redistribution

- Income and wealth inequality
 - Gruber Ch. 17, 18
 - 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
- Redistribution as investment in human capital
 - 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
- Taxes, redistribution, and labor supply
 - Gruber Ch. 17, 21
 - Hoynes, Hilary and Jesse Rothstein. (2019). “Universal Basic Income in the United States and Advanced Countries.” *Annual Review of Economics*, 11(1): 929-958
- Ways to reduce the moral hazard of redistribution
 - Kleven, Henrik. (2014). “How Can Scandinavians Tax So Much?” *Journal of Economic Perspectives*, (28) 4: 77-98