Woodrow Wilson School
Elizabeth C. Bogan

WWS 307

Economics and Public Policy

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Office Hours:
Tuesdays: 3:40-5:30 p.m.
Wednesdays: 3:40-4:10 p.m.
Thursdays: 3:40-5:40 p.m.
Fridays 1:00-2:30 pm

Additional hours available by appointment

Packet 1
Woodrow Wilson School
WWS307 – Economics and Public Policy

Elizabeth C. Bogan
Fall 2002

This course is intended to increase the student's analytical skills in evaluating public policies in terms of economic efficiency and equity. The first two weeks are devoted to the efficiency criteria of welfare economics. We will examine the conditions that lead to efficient markets and those that lead to market failure and suggest public policy responses. We will also discuss some of the efficiency problems in the delivery of public goods and services. The remainder of the course examines existing and proposed public policies in a number of areas, including education, health care, poverty, financial markets, the environment and industrial development, where public policy may be able to increase efficiency as well as equity.

Course Requirements and Grading
There is no single text book for this course.
I recommend that you buy:

Philip Jacobs and John Rappoport, The Economics of Health and Medical Care, 5th edition

You may also wish to purchase one or both of the following:

Tom Tietenberg, Environmental and Natural Resource Economics, 5th edition
Viscusi, Vernon and Harrington, Economics of Regulation and Antitrust, 3rd edition

These books and other required readings will be on reserve in the Woodrow Wilson Library.

There are two required packets which you will need to purchase from Pequod, at the U-Store
The packets have problem sets, newspaper and journal articles.

The Economist will be used for current events. You may subscribe for 10 weeks for $17.
Make your check payable to E. C. Bogan.

There will be several questions to prepare or problem sets due for each of the precepts during the semester. If you cannot attend a precept, then you are responsible to hand in the written problems and brief answers to all the discussion questions.

There is a required "10 page" paper in which you recommend a public policy toward education, health care, welfare, business or the environment and explain how your policy improves efficiency and/or improves equity. If the program improves equity, you should explain why it is the most efficient way to reach your equity improvement. This paper is due on Monday, Jan. 13, 2003. Two people may write one paper. Team work is encouraged, but not required.

There will also be a mid-term and a final examination.

The course requirements are weighted as follows in determining the final grade:

Precept participation and problem sets 10%

Paper 20%

Mid-term Exam 30%

Final Exam 40%
Thurs. Sept. 12 & full Week 1

- Pareto optimality and efficiency criteria
- Equity and efficiency - welfare economics
- Individual and/or societal perspectives

Rosen, Harvey S., Public Finance, Chapter 4, "Tools of Normative Analysis" pp. 38-55. (Packet pp. 12-20)

IMF "Economic Issues #16" pp. 3 and 10 (Packet p. 21)

"Happiness is a Warm Vote" The Economist, April 17, 1999, p. 82 (Packet p. 22)


Jacobs and Rapport, The Economics of Health & Medical Care, 5th edition, Value Judgments and Economic Evaluation. (WWS Library)

When markets fail to be efficient (externalities, information failures, monopoly, pure public goods, the problem of moral hazard)
Government responses: ownership, regulation, insurance


Week 2 Problem Set 2 (Packet pp. 47-51) Due in precept, Wed. Sept. 25th

Graph: Demand for Others Consumption (Packet p. 31)

The Problem With Price Controls (Packet pp. 32-33)


Economic theory of public choice - efficiency failures of governmental allocation. (rent seeking, separation of costs and benefits, free riders, costs of litigation, special interest effects, weak demand articulation)

"The Withering Away of the State" The Economist, April 6, 1996, p. 82. (Packet p. 44)

Becker and Becker, The Economics of Life, pp. 203-204, 210-211 (Packet pp. 45-46)

Optional:

Week 2 Lecture 2

Education and human capital

Education production functions

"World Education League." The Economist, March 29,1997, p. 21-23 (Packet pp. 52-54)

Reference:


"Family and Child Characteristics" The NBER Digest, September 1994, (Packet p. 73)


Card, David and Alan B. Krueger, "School Resources and Student Outcomes: An Overview of the Literature and New Evidence from North and South Carolina" Journal of Economic Perspectives, Fall 1996, pp. 31-50 (Packet pp. 88-99)


Heckman, James, “Doing It Right: Job Training and Education” The Public Interest, Spring 1999 (Packet pp. 101-108)
Problem Set 3 (Packet p. 109-110) Due in precept, Wed., October 2

Education and earnings


Krueger, Alan and Orlely Ashenfelter, "Twins and Return to Schooling" (excerpts) (Packet pp. 116-120)

Race and Education


Optional:

Financing Education

Reference:


Monopoly Public Education versus Choice

Chubb, John and Terry Moe, Politics, Markets and America's Schools, Chapter 6, pp. 185-229 and Appendix D, pp. 259-277. (WWS Library)


Optional:

Week 4  Problem Set 4 (Packet pp. 189-190) Due Weds. October 9, 2002

Health Care Economics
Problems in equity and efficiency
Demand for services:
1. high income elasticity of demand
2. Medicare, Medicaid, 3rd party payment

Jacobs, Philip and John Rapport, The Economics of Health and Medical Care, 5th edition, selected chapters. (WWS Library)

"The Costs and Benefits of Health Care" Economic Intuition, Spring 1999, pp. 21,22 (Packet p. 142)


Dafay, Leemore and Johnathan Gruber, "Does Public Insurance Improve the Efficiency of Medical Care? Medicaid Expansions and Child Care Hospitalizations" NBER Working Paper 7555, excerpt (Packet p. 147)

Cutler, David and Louise Sheiner, "Managed Care and the Growth of Medical Expenditures" NBER Working Paper, No. 6140. (Packet p. 148)


Optional:
Supply of Services:  
Managed Care and the Emergence of HMOs  
The Integration of doctors, hospitals, and insurance

Jacobs, Philip and John Rappoport, The Economics of Health and Medical Care, 5th edition, selected Chapters (WWS Library)


Malpractice Insurance

Optional:
Research and Development:

Optional:


Week 5   Problem Set 5 (Packet pp. 244) Due October 16, 2002

Suggestions for changing government policy on health care.


"The Tortuous History of a Medicare Claim" The WSJ, 8/31/95 (Packet p. 196)


Henderson, James, "The Oregon Health Plan" Health Economics and Policy, 199, pp. 520-521 (Packet p. 198)


Englehardt, H. Tristam, pages 201-205 from the previously listed book. (Packet pp. 205-207)


Optional:

Rhodes, Robert, Health Care Chapter 6, Distributive Justice and Health Care Rationing, pp. 95-120.

The Canadian System of National Insurance

"Whither A Health-Care Solution? Oh Canada" Business Week, March 21, 1994 (Packet pp. 210-211)
Optional:

Competitive Health Plans


Cartoon, The New Yorker, p.32. (Packet, p. 217)


Jacobs, Philip, The Economics of Health and Medical Care, Chapter 13 "The Reform of the Health Care Market Structure" (WWS library reserve)

President and Mrs. Clinton's 1993 Health Plan


Reforming Medicare


Cutler, David, "Walking the Tightrope on Medicare Reform" Journal of Economic Perspectives, Spring, 2000, pp. 45-56. (Packet pp. 252-258)


Week 6 –

Tuesday October 22 Lecture 1 - Proposed Reforms of Health Care System
continued

Weds October 23, No Precept
The midterm is at 7:30 on Wednesday, October 23. If you have a Wednesday evening class, please schedule a daytime exam on Wednesday or Thursday.
Midterm Exam – Wednesday evening 7:30 p.m.
Sample Midterm (Packet pp. 265-271)

Week 6 - Lecture 2 Thursday October 24 (Day after Midterm)

Illegal Drugs and Crime


"Getting Gangsters out of Drugs" The Economist, April 2, 1988, pp. 11-12. (Packet pp. 277-278)


“Increased Arrests Deter Crime” NBER Digest, June 1996 (Packet p. 288)


Kelling, George & Catherine Coles, "Disorder and the Court" The Public Interest, Summer 1994 (Packet pp. 294-298)
Median Prison Sentences for All Serious Crimes (Packet p. 299)

DiFulio, John, "The Question of Black Crime" The Public Interest, Fall, 1994 (Packet pp. 300-303)

Loury, Glenn, "Listen to the Black Community" The Public Interest, Fall, 1994 (Packet p. 304-305).

Optional:
Lecture 1
Facts and theories on income distribution in the U.S.
Lorenz curves
20 year trends


Graphs from Population Profile of the United States; 1999 (Packet pp 13-14)

"A Look at Income Inequality" The Wall Street Journal, July 6, 2000 (Packet p. 15)


Reasons for the widening distribution of income.
Implications for the future


Table 4 - Shares of Aggregate Wages and Salary Income Received by Men (Packet p. 45)


"When Winners Take All" The Economist, 11/25/95 (Packet p. 49)


Steinmo, Sven, “The End of Redistribution?” Challenge, November-December, 1994 (Packet pp. 53-54)

African Americans, Mexican Americans, Asian Americans & Income Distribution

Graph - Median Household Income by Race and Hispanic Origin (Packet p. 57)


Loury, Glen C., "Discrimination in the Post-Civil Rights Era: Beyond Market Interactions" Journal of Economic Perspectives, pp. 117-126 (Packet pp.64-71)


Women and Income Distribution


Graphs (Packet pp. 82-83)


Cawley, John, "Body Weight and Women's Labor market outcomes" NBER Working Paper No. 7841, August 2000 (Packet p. 96)


“Blacks in America" The Economist, 11/4/95 (Packet p. 103)


Men and Income Distribution


The Distribution of Wealth


Social Security


Week 8 Problem Set 7 (Packet p. 142) Due November 13, 2002

Poverty

Appendix A: Social Spending (Packet p. 143)

“Number of Poor and Poverty Rates: 1959-2000" (Packet p.144)


Negative Income Tax Table (Packet p.148)

Federal Reserve Bank of St. Louis, "The Earned Income Tax Credit at Work" National Economic Trends, April 2001 (Packet p. 149)


Welfare Reform


"Liberal Welfare Programs: What the Data Show on Programs for Teenage Mothers" The Heritage Foundation, 3/31/95 (Packet pp.163-167)


Pigeon and Wray, "Did the Clinton Rising Tide Lift All Boats?" Challenge, May-June, 1999, pp. 30-31 (Packet p.185)

Jencks, Christopher, Rethinking Social Policy: Race, Poverty and the Underclass, Harvard University Press  pp. 1-23, 204-235 (WWS library)


Economic Support for Children


Homelessness


Optional:

Week 9 Problem Set 8 (Packet pp. 199-200) Due November 20, 2002

Theory of government regulation of business

Viscusi, Vernon and Harrington, Economics of Regulation and Antitrust, 3rd edition, Chapter 1, pp. 1-10, Chapter 3 – Introduction to Antitrust, pp. 62-72, and Chapter 10 – Introduction to Economic Regulation, pp. 297-313


"Who Owns the Knowledge Economy?" The Economist, April 8, 2000, p. 17 (Packet p. 248)
"The Knowledge Monopolies" The Economist, April 8, 2000, pp. 77-78. (Packet pp. 249-251)


Table 1 – Regulations and Programs that could be Targeted for Elimination (Packet p. 253)


“Calm Down: Risk is Not All Around" The Wall Street Journal, 12/14/93 (Packet p. 259)


The Federal Drug Administration
Expected value and risk aversion
Type 1 and Type 2 errors
AIDS research


Frances, David, “Orphan Drugs Cure Rare Diseases” NBER Digest, May 2002 (Packet p. 263)


“Take only as Directed (Wink)" Business Week, August 16, 1999, p. 44 (Packet p. 266)

Week 10 Problem Set 9 (Packet p. 267) Due November 27, 2002

Financial Regulation
The S & L Debacle

"Finance: Trick or Treat?" The Economist, 10/3/99 pp. 91-92 (Packet pp. 268-269)

Notes on the Financial Industry by Dr. Bogan (Packet pp.270-273)

Banking Regulation

"The Business of Banking" The Economist, 10/30/99 pp. 89-90 (Packet pp. 274-275)


Securities Regulations

Fink, Mathew, "Future of the Financial Services Industry" Investment Company Institute, March 2, 1995 (Packet p.280-284)

Miller, Merton H., Financial Innovations and Market Volatility, Chapter 8 – Strategies for Capital Market Structure and Regulation, p. 127-166 (WWS library)


Week 11 Problem Set 10 (Packet p. 313) Due December 4, 2002

Environmental Regulation
Internalizing externalities
Emissions, Bubbles, Tradeable emission allowances

Notes on the Environment (Packet pp.314-319)

Optional:

Titenberg, Tom, Environmental and Natural Resource Economics, 5th Edition. Several chapters are on reserve in the WWS Library.


“Where Have All the Fishes Gone?" The Economist, reprinted in World Press Review, June 1994 (Packet p. 322)
"The Truth about the Environment" The Economist, 8/4/01 (Packet pp. 323-325)

Hanemann, Michael, "Valuing the Environment Through Contingent Valuation" Journal of Economic Perspectives, Fall 1994 (Packet pp. 326-331)

Optional:
Tietenberg, Tom, Environmental and Natural Resource Economics, Chapter 15, "Stationary-Source Local Air Pollution"


Wetlands and Endangered Species
Cost-benefit analysis with present value consideration
What is private property?


Tradeable Emission Allowances


"Money to Burn" The Economist, December 6, 1997, p. 86 (Packet p. 357)


Problems with Environmental Regulation


Woellert, Lorraine, "It's Open Season on the EPA" Business Week, 7/31/00 p. 48 (Packet p. 371)
Week 12  Problem Set 11 (Packet pp.372-375) Due December 11, 2002

Public Policy and Economic Growth

Emphasis on the efficiency of markets versus government correction of market failure with an explicit industrial policy

Notes on Role of Public Policy in Economic Growth (Packet pp. 376-377)

Optional:
1. Dertouzos, Lester and Solow, Made in America, MIT Commission on Industrial Policy, Chapters 1,2,10 and pp. 166-167.
2. Baumol, Blackman, and Wolff, Productivity and American Leadership, 1989

“When the State Picks Winners” The Economist, January 9, 1993, p. 13
(Packet pp. 378-379)


Final Exam Sample (Packet pp.381-393)