

University of Alicante  
Second Year Q.E.D. Program

**Public Economics**  
**Fall 2012**

Faculty: Iñigo Iturbe-Ormaetxe, office 9, ext. 3227, [iturbe@ua.es](mailto:iturbe@ua.es)  
Office hours: By appointment  
Schedule: Mondays 15:00-18:00

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**Overview:** Welcome to Public Economics. This is a course on the basics of the economics of public intervention. Depending on the time we will cover the topics of Taxation, Social Insurance, Public Goods, Social Security and Education.

**Grading:** Presentations, short paper, participation in class.

**Useful General References**

Atkinson, A. and J. Stiglitz, Lectures in Public Economics, New York: McGraw Hill, 1980

Auerbach, A., and M. Feldstein, Handbook of Public Economics: Vol. 1-4, Amsterdam: North Holland, 1985, 1987, 2002, and 2003

Gruber, J., Public Finance and Public Policy, Worth Publishers, 2004 (undergraduate text)

Myles, G., Public Economics, New York: Cambridge University Press, 1995

Rosen, H., Public Finance, 6<sup>th</sup> edition, Homewood, Illinois: Richard D. Irviwn, 2002 (undergraduate text)

Salanie, B., The Economics of Taxation, Cambridge: MIT Press, 2003

Stiglitz, J., Economics of the Public Sector. 2nd Ed. New York: Norton, 1988 (undergraduate text)

I will also publish classnotes for the lectures in the website of the course. You may also find interesting Raj Chetty's classnotes at Harvard:

([http://obs.rc.fas.harvard.edu/chetty/public\\_lecs.html](http://obs.rc.fas.harvard.edu/chetty/public_lecs.html))

Emmanuel Saez (Berkeley) has also very interesting classnotes:

(<http://elsa.berkeley.edu/~saez/course/course.html>)

**Schedule and Readings** (Required readings are marked with \*)**Weeks 1-3: Taxation**

Acemoglu, D., Golosov M. and A. Tsyvinski, "Political Economy of Ramsey Taxation." *Journal of Public Economics*, 2011 (forthcoming).

Andersen, T., "Why do Scandinavians Work?," CESifo Working Paper 3068, 2010.

Atkinson and Stiglitz, Chapters 11, 12, 13, and 14.

Atkinson, A. and J. Stiglitz, "The Design of Tax Structure: Direct Versus Indirect Taxation." *Journal of Public Economics*, 6, 55-75, 1976.

Atkinson, A., T. Piketty, and E. Saez, "Top Incomes in the Long Run of History," *Journal of Economic Literature* 49 (1), 3-71, 2011.

\* Auerbach, A. and J. Hines, "Taxation and Economic Efficiency." Chapter 21 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. 3, Elsevier Science Publishers B. V. (North-Holland), 2002.  
(Also available at <http://emlab.berkeley.edu/users/auerbach/ftp/ebot.pdf>)

Auerbach, A., "The Choice between Income and Consumption Taxes: A Primer," NBER Working Paper 12307, 2006.

Bernheim, D., "Taxation and Savings." Chapter 18 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. 3, Elsevier Science Publishers B. V. (North-Holland), 2002.

Blomquist, S. and L. Micheletto, "Age Related Optimal Income Taxation", *Scandinavian Journal of Economics* 110, 1, 45-71, 2008.

Blundell, R. and T. MaCurdy, "Labor Supply: A Review of Alternatives Approaches." Chapter 27 in *Handbook of Labor Economics* (O. Ashenfelter and D. Card, eds.), Vol. 3, Elsevier Science Publishers B. V. (North-Holland), 1999.

Blundell, R., and A. Shephard, "Employment, Hours of Work and the Optimal Taxation of Low Income Families," forthcoming *Review of Economic Studies*, 2012.

Chamley, C., "Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives," *Econometrica* 54, 607-22, 1986.

Chetty, R., "Is the Taxable Income Elasticity Sufficient to calculate Deadweight Loss? The Implications of Evasion and Avoidance," *American Economic Journal: Economic Policy* 1 (2): 31-52, 2009.

\* Chetty, R., A. Looney and K. Kroft, "Salience and Taxation: Theory and Evidence," *American Economic Review* 99(4): 1145-1177, 2009.

Conesa, J. C., S. Kitao, and D. Krueger, "Taxing Capital? Not a Bad Idea after All!," *American Economic Review*, 99, 1, 25–48, 2009.

Congdon, W., J. Kling, and S. Mullainathan, "Behavioral Economics and Tax Policy," NBER Working Paper 15328, 2009.

Corlett, W. and D. Hague, "Complementarity and the Excess Burden of Taxation," *Review of Economic Studies* 21, 21-30, 1953.

Dahan, M. and M. Strawczynski, "Optimal Income Taxation: An Example with a U-Shaped Pattern of Optimal Marginal Tax Rates: Comment," *American Economic Review* 90 (3), 681-686, 2000.

Deaton, A., "Optimal Taxes and the Structure of Preferences," *Econometrica* 49, 1245-60, 1981.

Diamond, P., "A Many-Person Ramsey Tax Rule," *Journal of Public Economics* 4, 335-342, 1975.

\* Diamond, P., "Optimal Income Taxation: An Example with a U-Shaped Pattern of Optimal Marginal Tax Rates," *American Economic Review* 88 (1), 83-95, 1998.

Diamond, P. and J. Mirrlees, "Optimal Taxation and Public Production I: Production Efficiency," *American Economic Review* 61 (1), 8-27, 1971.

Diamond, P. and J. Mirrlees, "Optimal Taxation and Public Production II: Tax Rules," *American Economic Review* 61 (3), 261-278, 1971.

Diamond, P. and J. Spinnewijn, "Capital Income Taxes with Heterogeneous Discount Rates," NBER Working Paper 15115, 2009.

Diamond, P. and E. Saez, "The Case for a Progressive Tax: From Basic Research to Policy Recommendations," CESIFO Working Paper 3548, 2011.

Erosa, A. and M. Gervais, "Optimal Taxation in Life-Cycle Economies." *Journal of Economic Theory* 105, 338-369, 2002.

Farhi, E., and I. Werning, "Insurance and Taxation over the Life Cycle," NBER Working Paper 16749, 2011.

Feldstein, M., "Tax Avoidance and the Deadweight Loss of the Income Tax." *The Review of Economics and Statistics* 81 (4), 674-680, 1999.

Feldstein, M. "Effects of Taxes on Economic Behavior," NBER Working Paper 13745, 2008.

Fleurbaey, M., "Is Commodity Taxation Unfair?," *Journal of Public Economics* 90, 1765-1787, 2006.

Fullerton, D. and G. Metcalf, "Tax Incidence." Chapter 26 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. 4, Elsevier Science Publishers B. V. (North-Holland), 2003.

(Also available as NBER Working Paper 8829 (<http://papers.nber.org/papers/W8829>) )

Goldin, J., and T. Homonoff, "Smoke Gets in Your Eyes: Cigarette Tax Salience and Regressivity," Princeton University Industrial Relations Section Working Paper #561, December 2010.

Golosov, M., A. Tsyvinski, and I. Werning, "New Dynamic Public Finance: A User's Guide." In *NBER Macroeconomics Annual 2006*. Edited by D. Acemoglu, K. Rogoff, and M. Woodford, MIT Press, pp. 317-363, 2007.

Goulder, L. and R. Williams, "The Substantial Bias from Ignoring General Equilibrium Effects in Estimating Excess Burden, and a Practical Solution," *Journal of Political Economy* 111 (4), 898-927, 2003.

Gruber, J. and E. Saez, "The Elasticity of Taxable Income: Evidence and Implications," *Journal of Public Economics* 84, 1-32, 2002.

Harberger, A., "The incidence of the Corporation Tax," *Journal of Political Economy* 70, 215-240, 1962.

Hausman, J., "Exact Consumer Surplus and Deadweight Loss," *American Economic Review* 71 (4), 662-676, 1981.

Hines, J., "Taxing Consumption and Other Sins," *Journal of Economic Perspectives* 21, 1, 49-68, 2007.

Judd, K., "Redistributive Taxation in a Simple Perfect Foresight Model," *Journal of Public Economics* 28, 59-83, 1985.

Judd, K., "Capital-Income Taxation with Imperfect Competition," *American Economic Review* 92, 2, 417-421, 2002.

Kaplow, L., "On the (Ir)Relevance of Distribution and Labor Supply Distortion to Government Policy," *Journal of Economics Perspectives* 18, 4, 159-175, 2004.

Kaplow, L., "Optimal Income Transfers," NBER Working Paper 12284, 2006.

Kaplow, L., *The Theory of Taxation and Public Economics*, Princeton University Press, 2008.

Kaplow, L., "Taxing Leisure Complements," NBER Working Paper 14397, 2008.

Keane, M., "Labor Supply and Taxes: A Survey," Sidney University of Technology Working Paper 160, 2010.

Kleven, H., C. Kreiner, and E. Saez, "The Optimal Income Taxation of Couples," *Econometrica* 77, 2, 537-560, 2009.

Kocherlakota, N., “Zero Expected Wealth Taxes: A Mirrlees Approach to Dynamic Optimal Taxation,” *Econometrica* 73, 5, 1587-1621, 2005.

Kotlikoff, L., and L. Summers, “Tax Incidence.” Chapter 16 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. 2, Elsevier Science Publishers B. V. (North-Holland), 1987.

Krusell, P., B. Kurusçu, and A. Smith, “Temptation and Taxation,” *Econometrica* 78 (6), 2063–2084, 2010.

Laroque, G., “Indirect Taxation is Superfluous under Separability and Taste Homogeneity: a Simple Proof.” *Economics Letters* 87, 141-4, 2005.

\* Liebman, J., and R. Zeckhauser, “Schmeduling,” Harvard University, Kennedy School of Government Working Paper, 2004.

Mankiw, G., and M. Weinzierl, “The Optimal Taxation of Height: A Case Study of Utilitarian Income Redistribution”, forthcoming in *American Economic Journals: Economic Policy*.

Mankiw, G., M. Weinzierl, and D. Yagan, “Optimal Taxation in Theory and Practice”, NBER Working Paper 15071, June 2009.

Mirrles, J. A., “An Exploration in the Theory of Optimum Income Taxation,” *Review of Economic Studies* 38 (2), 175-208, 1971.

Myles, Chapters 4, 5, 7, and 8.

Naito, H., “Atkinson-Stiglitz Theorem with Endogenous Human Capital Accumulation,” *The B. E. Journal of Economic Analysis and Policy* 7, 1, Article 46, 2007.

Piketty, T. and E. Saez, “Income Inequality in the United States, 1913-1998,” *Quarterly Journal of Economics* 118, 1-39, 2003.

\* Piketty, T., E. Saez, and S. Stantcheva, “Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities,” NBER Working Paper 17616, 2011.

Rothschild, C., and F. Scheuer, “Optimal Taxation with Rent-Seeking,” NBER Working Paper 17035, 2011.

\* Saez, E., “Using Elasticities to Derive Optimal Income Tax Rates,” *Review of Economic Studies* 68, 205-229, 2001.

Saez, E., “The Desirability of Commodity Taxation Under Non-Linear Income Taxation and Heterogeneous Tastes,” *Journal of Public Economics* 83, 217-230, 2002.

Saez, E., and R. Chetty, “Optimal Taxation and Social Insurance with Endogenous Private Insurance,” NBER Working Paper 14403, 2008.

\* Saez, E., J. Slemrod and S. Giertz, "The Elasticity of Taxable Income with respect to Marginal Tax Rates: A Critical Review," NBER Working Paper 15012, 2009.

Salanie, Chapters 1-9.

Samuelson, P., "Theory of Optimal Taxation," *Journal of Public Economics* 30, 137-43, 1986.

Shoven, J. and J. Whalley, "Applied General Equilibrium Calculation of the Effects of Differential Taxation of Income from Capital in the US," *Journal of Economic Literature* 22, 1007-51, 1984.

Sørensen, P., "The Theory of Optimal Taxation: New Developments and Policy Relevance, EPRU Working Paper Series No 2009-09, University of Copenhagen, 2009.

Stiglitz, J., "The Effects of Income, Wealth, and Capital Gains Taxation on Risk-Taking." *Quarterly Journal of Economics* 83 (2), 263-283, 1969.

Stiglitz, J., "Pareto Efficient and Optimal Taxation and the New Welfare Economics." Chapter 15 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. II, Elsevier Science Publishers B. V. (North-Holland), 1987.

Summers, L., "Taxation and Capital Accumulation in a Life Cycle Growth Model," *American Economic Review* 71, 533-554, 1981.

Tuomala, M., "On the Optimal Income Taxation," *Journal of Public Economics* 23, 351-366, 1984.

Werning, I., "Pareto Efficient Income Taxation," MIT Working Paper, April 2007.

Werning, I., "Optimal Fiscal Policy with Redistribution," *Quarterly Journal of Economics* 122, 925-968, 2007.

Young, P., "Progressive Taxation and Equal Sacrifice," *American Economic Review* 8, 1, 253-266, 1990.

\* Young, P., "Progressive Taxation." Chapter 6 in his book *Equity*, Princeton University Press, 1994.

#### **Weeks 4-5: Social Insurance**

Acemoglu, D. and J. Angrist, "Consequences of Employment Protection? The Case of the Americans with Disabilities Act," *Journal of Political Economy* 109(5), 915-957, 2001.

Baily, M., "Some Aspects of Optimal Unemployment Insurance." *Journal of Public Economics* 10, 379-402, 1978.

\* Chetty, R., "A General Formula for the Optimal Level of Social Insurance." *Journal of Public Economics* 90, 1879-1901, 2006.

Chetty, R. and A. Looney, "Consumption Smoothing and the Welfare Consequences of Social Insurance in Developing Countries," *Journal of Public Economics* 90, 2351-2356, 2006.

Chetty, R. "Moral Hazard vs. Liquidity and Optimal Unemployment Insurance," *Journal of Political Economy* 116(2), 173-234, 2008.

Chetty, R. and A. Szeidl, "Consumption Commitments and Risk Preferences" *Quarterly Journal of Economics* 122(2), 831-877, 2007.

Einav, L., and A. Finkelstein, "Selection in Insurance Markets: Theory and Empirics in Pictures," NBER Working Paper 16723, 2011.

Feldstein, M. "Temporary Layoffs in the Theory of Unemployment," *Journal of Political Economy* 84, 937-958, 1976.

Feldstein, M. and D. Altman, "Unemployment Insurance Savings Accounts," *Tax Policy and the Economy*, vol. 21: 35-64, 2007.

Feldstein, M., "Rethinking Social Insurance" Presidential Address to the AEA annual meetings, *American Economic Review*, March 2005.

Finkelstein, A., J. Poterba, "Adverse Selection in Insurance Markets: Policyholder Evidence from the U.K. Annuity Market," *Journal of Political Economy*, 112, 183-208, 2004.

Gruber, J., "The Consumption Smoothing Benefits of Unemployment Insurance," *American Economic Review*, 87(1), 192-205, 1997.

Hopenhayn, H., and J. Nicolini, "Optimal Unemployment Insurance," *Journal of Political Economy*, 105 (2), 412-38, 1997.

Kroft, K. and M. Notowidigdo, "Should Unemployment Insurance Vary with the Unemployment Rate? Theory and Evidence," NBER Working Paper 17173, 2011.

Landais, C., P. Michaillat, and E. Saez, "Optimal Unemployment Insurance over the Business Cycle," NBER Working Paper 16526, 2010.

\* Rothschild, M. and J. Stiglitz, "Equilibrium in Competitive Insurance Markets: An Essay in the Economics of Imperfect Information," *Quarterly Journal of Economics* 90, 629-649, 1976.

Saez, E., "Optimal Income Transfer Programs: Intensive versus Extensive Labor Supply Responses," *Quarterly Journal of Economics* 117, 1039-1073, 2002.

Shavell, S. and L. Weiss, "The Optimal Payment of Unemployment Insurance Benefits over Time," *Journal of Political Economy* 87, 1347-1362, 1979.

Shimer, R. and I. Werning, "Reservation Wages and Unemployment Insurance," *Quarterly Journal of Economics*, 122(3), 1145—1185, 2007.

Shimer, R. and I. Werning, "Liquidity and Insurance for the Unemployed," *American Economic Review*, vol. 98(5), 1922-42, 2008.

### **Weeks 6-7: Public Goods**

Andreoni, J., "Privately Provided Public Goods in a Large Economy: The Limits to Altruism," *Journal of Public Economics* 35, 57-73, 1988.

Andreoni, J., "Why Free-Ride?," *Journal of Public Economics* 37, 291-304, 1988.

\* Andreoni, J., "Giving with Impure Altruism: Applications to Charity and Ricardian Equivalence," *Journal of Political Economy* 97 (6), 1447-1458, 1989.

Andreoni, J., "Impure Altruism and Donations to Public Goods: A Theory of Warm Glow Giving," *Economic Journal* 100, 464-477, 1990.

Andreoni, J., "An Experimental Test of the Public Goods Crowding-Out Hypothesis," *American Economic Review* 83 (5), 1317-27, 1993.

Andreoni, J. and A. Payne, "Do Government Grants to Private Charities Crowd Out Giving or Fundraising?" *American Economic Review* 93(3), 792-812, 2003.

Andreoni, J., A. Payne, J. Smith, and D. Karp, "Diversity and Donations: The Effect of Religious and Ethnic Diversity on Charitable Giving," *NBER Working Paper* 17618, 2011.

Atkinson, A. and N. Stern, "Pigou, Taxation and Public Goods," *Review of Economic Studies* 41 (1), 119-128, 1974.

\* Bergstrom, T., Blume, L. and H. Varian, "On the Private Provision of Public Goods," *Journal of Public Economics* 29, 25-49, 1986.

Besley, T. and S. Coate, "Public Provision of Private Goods and the Redistribution of Income," *American Economic Review* 81 (4), 979-984, 1991.

Blackorby, Ch. and D. Donaldson, "Cash Versus Kind, Self-Selection, and Efficient Transfers," *American Economic Review* 78 (4), 691-700, 1988.

Chaudhuri, A., "Sustaining Cooperation in Laboratory Public Goods Experiments: A Selective Survey of the Literature," *Experimental Economics* 14, 47–83, 2011.

Epple, D. and R. E. Romano, "Public Provision of Private Goods," *Journal of Political Economy* 104 (1), 57-84, 1996.



Gaube, T. "When do Distortionary Taxes Reduce the Optimal Supply of Public Goods?," *Journal of Public Economics* 76, 151-180, 2000.

Hungerman, D. "Are Church and State Substitutes? Evidence from the 1996 Welfare Reform," *Journal of Public Economics* 89, 2245-2267, 2005.

Isaac, M., K. McCue, and Ch. Plott, "Public Goods Provision in an Experimental Environment", *Journal of Public Economics* 26, 51-74, 1985.

Kaplow, L., "The Optimal Supply of Public Goods and the Distortionary Cost of Taxation," *National Tax Journal* 49, 513-532, 1996.

Kingma, B. "An Accurate Measurement of the Crowd-Out Effect, Income Effect, and Price Effect for Charitable Contributions," *Journal of Political Economy* 97, 1197-1207, 1989.

Kolstad, Ch., "Public Goods Agreements with Other-regarding Preferences," *NBER Working Paper* 17017, 2011.

Kotchen, M., "Green Markets and Private Provision of Public Goods," *Journal of Political Economy* 114 (4), 816-834, 2006.

Kreiner, C. and N. Verdellin, "Optimal Provision of Public Goods: A Synthesis," *EPRU Working Paper* 2008-5, 2009.

Laffont, J.-J., "Incentives and the Allocation of Public Goods." Chapter 10 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. II, Elsevier Science Publishers B. V. (North-Holland), 1987.

Lindahl, E., "Just Taxation: A Positive Solution," in *Classics in the Theory of Public Finance*, edited by R. Musgrave and A. Peacock, Macmillan, 1958, 168-176.

Marwell, G. and R. Ames, "Economists Free-Ride, Does Anyone Else?" *Journal of Public Economics* 15, 295-310, 1981.

Samuelson, P., "The Pure Theory of Public Expenditure," *Review of Economics and Statistics* 36 (4), 387-389, 1954.

Samuelson, P., "Diagrammatic Exposition of a Theory of Public Expenditure," *Review of Economics and Statistics* 37 (4), 350-356, 1955.

Samuelson, P., "Aspects of Public Expenditure Theories," *Review of Economics and Statistics* 40 (4), 332-338, 1958.

Wilson, J., "Optimal Public Good Provision with Limited Lump-sum Taxation," *American Economic Review* 81, 1991, pp. 153-66.

Warr, P., "The Private Provision of a Pure Public Good is Independent of the Distribution of Income," *Economics Letters* 13, 207-211, 1983.

**Weeks 7-8: Social Security**

Abel, A., "Precautionary Saving and Accidental Bequests," *American Economic Review* 75, No. 4, 777-791, 1985.

Congressional Budget Office, "Social Security and Private Saving: A Review of the Empirical Evidence." U.S. Government Printing Office, 1998.  
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Coronado, J., D. Fullerton, and T. Glass, "The Progressivity of Social Security," *The B.E. Journal of Economic Analysis & Policy* 11 (1), Advances, Article 70, 2011.

Diamond, P., "Social Security," *American Economic Review* 94, No. 1, 1-24, 2004.

Diamond, P., "Taxes and Pensions," CESIFO Working Paper 2636, 2009.

\* Eckstein, Z., Eichenbaum, M., and D. Peled, "Uncertain Lifetimes and the Welfare Enhancing Properties of Annuity Markets and Social Security," *Journal of Public Economics* 26, 303-326, 1985.

Feldstein, M., "Social Security, Induced Retirement, and Aggregate Capital Accumulation," *Journal of Political Economy* 82 (5), 905-926, 1974.

\* Feldstein, M., "The Optimal Level of Social Security Benefits," *Quarterly Journal of Economics* 100 (2), 303-320, 1985.

Feldstein, M., "The Missing Piece in Policy Analysis: Social Security Reform," *American Economic Review* 86, No. 2, 1-14, 1996.

\* Feldstein, M. and J. B. Liebman, "Social Security," Chapter 32 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. 4, Elsevier Science Publishers B. V. (North-Holland), 2003 (Also available as NBER Working Paper 8451).

Geanakoplos, J., O. S. Mitchell and S. P. Zeldes, "Would a Privatized Social Security System really Pay a Higher Rate of Return." In *Framing the Social Security Debate: Values, Politics, and Economics* (R. Douglas Arnold, Michael J. Graetz and Alicia H. Munnell, eds.), Brookings Institution Press, 1998.

Geanakoplos, J., and S. P. Zeldes, "Market Valuation of Accrued Social Security Benefits." Cowles Discussion Paper No. 1711, 2009.

Gruber, J. and D. A. Wise (eds.), *Social Security and Retirement around the World*. Chicago: University of Chicago Press, 1999.

Gruber, J. and D. A. Wise, "Different Approaches to Pension Reform from an Economic Point of View." In *Social Security Pension Reform in Europe* (Martin Feldstein and Horst Siebert, eds.), Chicago: University of Chicago Press, forthcoming, 2001.

Hubbard, G., J. Skinner, and S. Zeldes, "Precautionary Saving and Social Insurance," *Journal of Political Economy* 103 (2), 360-399, 1995.

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Kotlikoff, L. J., "Social Security and Equilibrium Capital Intensity," *Quarterly Journal of Economics* 93, 233-253, 1979.

Kotlikoff, L. J., "Testing the Theory of Social Security and Life Cycle Accumulation," *American Economic Review* 69 (3), 396-410, 1979.

Lindbeck, A. and M. Persson, "The Gains from Pension Reform," *Journal of Economic Literature* 41 (1), 74-112, 2003.

Milligan, K. and D. Wise, "Social Security and Retirement around the World: Historical Trends in Mortality and Health, Employment, and Disability Insurance Participation and Reforms - Introduction and Summary," *NBER Working Paper* No. 16719, 2011.

Mulligan, C. B. and X. Sala-i-Martin, "Social Security in Theory and Practice (I): Facts and Political Theories," *NBER Working Paper* No. 7118, 1999.

Myles, Chapter 14.

Sala-i-Martin, X., "A Positive Theory of Social Security," *Journal of Economic Growth* 1, 277-304, 1996.

Sinn, H.-W., "Why a Funded System is Useful and Why It is Not Useful," *International Tax and Public Finance* 7, 389-410, 2000.

Stiglitz, Chapter 14.

## **Weeks 9-10: Education**

Altonji, J. and T. Dunn, "The Effects of Family Characteristics on the Return to Education", *Review of Economics and Statistics* 78 (4), 692-704, 1996.

Angrist, J. D. and A. B. Krueger, "Does Compulsory School Attendance Affect Schooling and Earnings?," *Quarterly Journal of Economics* 106 (4), 979-1014, 1991.

Angrist, J. D. and V. Lavy, "Using Maimonides' Rule to Estimate the Effect of Class Size on Scholastic Achievement," *Quarterly Journal of Economics* 114, 533-75, 1999.

Angrist, J. D. and J-S. Pischke, *Mostly Harmless Econometrics: An Empiricist's Companion*, Princeton University Press, 2009.

Ashenfelter, O. and D. Zimmerman, "Estimates Of The Returns To Schooling From Sibling Data: Fathers, Sons, And Brothers," *The Review of Economics and Statistics* 79(1), 1-9, 1997.

\*Ashenfelter, O. and C. Rouse, "Schooling, Intelligence, and Income in America." In *Meritocracy and Economic Inequality* (Kenneth Arrow, Samuel Bowles, and Steven Durlauf, eds.), Princeton University Press, 1999.

Barro, R. and J. Lee, "A New Data Set of Educational Attainment in the World, 1950-2010", NBER Working Paper 15902, 2010.

Becker, G., *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*. Third edition 1993, Chicago: Chicago University Press, 1964.

Behrman, J., M. Rosenzweig, and P. Taubman, "Endowments and the Allocation of Schooling in the Family and in the Marriage Market: The Twins Experiment," *Journal of Political Economy* 102, 6, 1131-1174, 1994.

Belley, Ph. and L. Lochner, "The Changing Role of Family Income and Ability in Determining Educational Achievement." *Journal of Human Capital* 1 (1), 37-89, 2007.

Bettinger, E., "Educational Vouchers in International Contexts," Chapter 7 in the Handbook of the Economics of Education, Vol. 4 (E. Hanushek, S. Machin, and L. Woessmann, eds.), 2011.

Betts, J., "The Economics of Tracking in Education." Chapter 7 in the Handbook of the Economics of Education, Vol. 3 (E. Hanushek, S. Machin, and L. Woessmann, eds.), 2011.

Bingley, P., Christensen, K., and I. Walker, "The Returns to Observable and Unobservable Skills over Time: Evidence from a Panel of the Population of Danish Twins," Working Paper, 2009.

Bound, J., D. Jaeger, and R. Baker, "Problems with Instrumental Variables Estimation when the Correlation between the Instruments and the Endogenous Variable is Weak," *Journal of the American Statistical Association* 90 (439), 443-450, 1995.

Card, D., "The Causal Effect of Education on Earnings." Chapter 30 in *Handbook of Labor Economics*, Vol. 3A (Orley Ashenfelter and David Card, eds.), North-Holland, 1999.

Chetty, R., J. Friedman, and J. Rockoff, "The Long-term Impacts of Teachers: Teacher Value-added and Student Outcomes in Adulthood," *NBER Working Paper* No. 17699, 2011.

De Gregorio, J. and Se-Jik Kim, "Credit Markets with Differences in Abilities: Education, Distribution and Growth," *International Economic Review* 41, 3, 579-607, 2000.

Eckstein, Z. and I. Zilcha, "The Effect of Compulsory Education on Growth, Income Distribution and Welfare," *Journal of Public Economics* 54, 339-59, 1994.

\* Epple, D. and R. E. Romano, "Ends against the Middle: Determining Public Service Provision when there are Private Alternatives," *Journal of Public Economics* 62, 297-325, 1996.

Epple, D. and R. E. Romano, "Competition between Private and Public Schools, Vouchers, and Peer Group Effects," *American Economic Review* 88, 33-62, 1998.

Fernandez, R. and R. Rogerson, "On the Political Economy of Education Subsidies," *Review of Economic Studies* 62, 249-62, 1995.

Friedman, M., *Capitalism and Freedom* (Chicago: University of Chicago Press), chapter 6, 1982.

Fryer, R., "Teacher Incentives and Student Achievement: Evidence from New York City Public Schools," *NBER Working Paper* No. 16850, 2011.

\* García-Peñalosa and K. Wälde, "Efficiency and Equity Effects of Subsidies to Higher Education," *Oxford Economic Papers* 52, 702-722, 2000.

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The graph shows a fall in public sector investment from 3.5% of GDP in 2008 to 1.5% in 2011. This means cuts of approximately £30bn a year. It means the government is spending less on capital investment projects such as new schools, new roads and other infrastructure investment. That is quite a significant fall. With a fall in government investment, the first impact will be to reduce aggregate demand, lower economic growth and lead to higher unemployment. Investment spending in the construction sector also tends to have a high multiplier effect (1.7 – 2.0). This study by RICS claims a multiplier of 2.0. Home » Courses » Economics » Public Economics I. Public Economics I. Course Home. Syllabus. 14.471 Public Economics I. Fall 2012. Massachusetts Institute of Technology: MIT OpenCourseWare, <https://ocw.mit.edu>. License: Creative Commons BY-NC-SA. Economics at. Fall 2012. No. 45. Northwestern University. David Figlio and Deborah Fletcher (2012) "Suburbanization, Demographic Change, and the Consequences for School Finance," *Journal of Public Economics*. Tim Sass, Jane Hannaway, Zeyu Xu, David Figlio, and Li Feng (2012) "Value-Added of Teachers in High-Poverty Schools and Lower Poverty Schools," *Journal of Urban Economics*. Shane Greenstein and Feng Zhu (May 2012) "Is Wikipedia Biased?" *American Economic Review*, 343-348. Public Economics Lectures. Part 1: Introduction Raj Chetty and Gregory A. Bruich. Harvard University Fall 2012. Public Economics Lectures. Almost every economic intervention occurs through government policy (i.e. involves public economics) via two channels: Price intervention: taxes, welfare, social insurance, public goods Regulation: min wages, FDA regulations (25% of products consumed), zoning, labor laws, min education laws, environment. Government directly employs one sixth of U.S. workforce. Public Economics Lectures.