Ec970: Messing with Markets

Syllabus

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Meeting Times: TTh 10:00 AM - 11:30 AM.
Room: Barker Center Room 012.
Office Hours: By appointment, and immediately after class.

Our government, like all governments, seems always and everywhere present. You’re probably grateful for its provision of public goods like clean water and education subsidies. But soon, you’ll bemoan the government’s intrusion first on monthly paydays and then again on April 15. Aside from public goods and taxation, governments also institute temporary monopolies, restrict entry into certain labor markets, regulate education, and intervene in the market for health care. Governments even outlaw certain markets entirely; for example, all countries except for Iran prohibit the sale or purchase of transplant organs.

This ubiquitous nature of our government and governments in general seems to contradict that basic economic dictum which says the market produces the optimal outcome. The First Fundamental Theorem of Welfare Economics states “any competitive equilibrium produces an efficient allocation.” Let Adam Smith’s “invisible hand” do its work.

Economics is not wrong. However, there are numerous strict assumptions that must be satisfied for the First Fundamental Theorem to apply. And even when the theorem holds, there may be other motivations for governments to mess with markets.

This course focuses on these various motivations. Sometimes the motivations involve efficiency, sometimes equity. Most often, policies balance between these two objectives. Through readings and discussions, students will learn to understand the goals and trade-offs of government interventions. However, it is not enough to merely identify intended aims. Students will also work to think clearly about evaluating how well policies achieve their goals and the degree of adverse side-effects.

Over the semester, we will jump across many settings of government action. We will pay particular emphasis to health care and education, two sectors caught in the public spotlight that also demand a large and increasing share of public resources.

Students should leave the class capable of “thinking like an economist.” For example, while reading a newspaper article about the Affordable Care Act or watching a debate about national defense, students should be able to understand in economic terms claims being made. Graduates of the class will also be able to design strategies to empirically investigate those claims.
1 Course Requirements

Prerequisites. Students should have completed Ec1010a and Stat104 (or equivalent). Either past or concurrent enrollment in Ec1123 is strongly recommended.

Class Participation (10%). Attendance is mandatory. Students should complete the readings before class and contribute to class discussions. In the event of sickness or other circumstances, please e-mail me before class.

Discussion Leading (10%). Each student will lead discussion twice during the semester. These presentations are informal and do not require powerpoints. However, presenters are expected to have read the paper carefully, highlight key points, and provide discussion questions. Students will sign up for presentation papers during the second class.

Two Short Papers (15%, 3-4 pages each). After the first two sections – taxation/redistribution and health care – students will be required to respond to a short prompt. These papers should demonstrate understanding of the material covered and will offer me a chance to give feedback on students’ writing.

Two Response Papers (15%, 2-3 pages each). Students should attempt to connect some topic covered in the popular press to a concept covered in class. For example, a New York Times article on the Affordable Care Act or a tax proposal may cursorily report some findings or hypotheses. Students should attempt to interpret those findings or hypotheses from an economic standpoint and cite outside sources.

These response papers should be used to explore candidate ideas for the final research paper.

Prospectus (10%, 3-5 pages). The prospectus lays out a roadmap for the research paper. It should clearly propose a question and a hypothesis, as well as discuss related literature. The prospectus should also include a description of the data and the chosen empirical strategy. Students will all be required to meet with me at least once to discuss their prospectus.

Research Paper and Presentation (30%, 15-18 pages). Your work in this class culminates in a research paper, which should be an empirical investigation of a topic related to public policy. The paper should follow the format of the papers reading in class, including an introduction, a review of related literature, some empirical work, and a discussion of findings. Finding a project and related data can be difficult, so start thinking about this and consulting with me early in the semester.

The final paper is due 5pm May 4. No extensions will be granted for this deadline.

STATA Problem Sets (10%). All students are required to attend all four sessions of the STATA mini-course offered by the Economics department. The course includes four problem sets that must be completed and turned into me.

   STATA Mini Course Dates: Tuesdays, 8:30am – 10am
   2/10, 2/24, 3/10, 3/31

   Problem Set Due Dates: Fridays – 2/20, 3/6, 3/27, 4/10
2 Course Policies

Extensions. Discuss extensions with me in advance. No extensions will be available for the final paper.

Academic Honesty. Any student caught plagiarizing will fail the course, as well as endure broader University consequences.

Regrade Requests. Regrade requests must be accompanied by a half-page memo explaining and justifying the request.

3 Reading List

Readings should be done before their corresponding class. Students are encouraged to read the abstract of discussion papers. All papers are available on the course website.

Class 1: Motivations for Messing with Markets

Class 2: Taxation


Discussion:

Class 3: Econometrics Review

Reading:
- Dataset Investigation.

Class 4: Taxation & Salience


Class 5: Redistribution


Discussion:
- Earned Income Tax Credit.
Class 6: Redistribution

Reading:

Response Paper 1 due.

Class 7: Externalities


Discussion:
- Pigouvian remedies and Coasian bargaining.

Class 8: Public Goods – Rent controls


Class 9: Health Insurance – Adverse Selection


Class 10: Health Insurance – Moral Hazard


Discussion:
- The RAND Health Insurance Experiment and the Oregon Medicaid Study.

Short Paper 1 due.

Class 11: The Costs of Health Care


Discussion: The Dartmouth Health Atlas.
Class 12: Comparative Health Systems

Reading: Class handout.

Class 13: The Affordable Care Act


Class 14: The Economics of Obesity


Discussion:

Prospectus due.

Class 15: Education – Returns to Education

Reading:

Discussion:
- Jaimovich, N. and Siu, H. E. (2012). The Trend is the Cycle: Job Polarization and Jobless Recoveries.

Class 16: Education – Teachers


Discussion:
- Instrumental Variables

Class 17: Education – Competition and Charter Schools

Discussion:

*Short paper 2 due.*

**Class 18: Economics of Places**


**Class 19: The Housing Bubble**


**Class 19: The Financial Crisis**


**Class 21: Industrial Policy in Developing Countries**


**Class 22: Student Presentations**

**Class 23: Student Presentations**