



北京大學  
汇丰商学院

Peking University HSBC Business School

# ECON540 Public Finance Module 3, 2016–2017

## Course Information

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Office Hour: Tue/Fri 10:30~11:30 am, or by appointment

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**Classes:**

Lectures: Tue/Fri at 13:30–15:20

Venue: PHBS Building, Room 335

**Course Website:**

[http://cms.phbs.pku.edu.cn/claroline/course/index.php?cid=PF\\_2017SP](http://cms.phbs.pku.edu.cn/claroline/course/index.php?cid=PF_2017SP)

## 1. Course Description

### 1.1 Context

Course overview:

Public finance (also known as public economics) studies the economics of government taxation and redistribution in market economies, in theory and practice. We will analyze the reason for government interventions in a market economy, as well as the impact of alternative government interventions on economic outcomes. Public economics include two primary topics of analysis: government expenditures and taxation. This course covers both topics, with a focus on the impact of government intervention on the relevant agents: households (consumers, workers) and firms. In this course, you will learn how to interpret economic analyses and how to use the tools of microeconomics and empirical analyses to investigate and predict the effects of public expenditures, regulations and government revenue-raising activities. This course will more focus on U.S. government expenditure policy, and its companion course, "Economics of Public Issues", will focus on U.S. government tax policy.

Prerequisites:

To follow up the class well, you are required to have passed *microeconomics* with at least a "90", and *mathematics for economists* with at least a "90". Students with background in statistics and/or econometrics will find this class more accessible. Cf) Students who got below 80 for the "**Advanced**" *Microeconomics* course need to consult with an instructor before registration.

## 1.2 Textbooks and Reading Materials

- **Required Textbook:**

1. **Handbook of Econometrics**, Vol. 6B, James J. Heckman and Edward Leamer (HE6)
2. **Public Finance and Public Policy**, Jonathan Gruber, 4th ed. Worth Publishers. (JG)

- **Recommended References:**

1. **Handbook of Public Economics**, Vol. 1, 2, 3, 4, and 5, Alan J. Auerbach and Martin Feldstein (HP1, HP2, HP3, HP4, HP5)
2. **Handbook of Health Economics**, Vol. 2, Mark V. Pauly, Thomas G McGuire, Pedro Pita Barros (HH2)

- Required (\*) and optional readings: A list of journal articles is provided below.

## 2. Learning Outcomes

### 2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	Exams Final assignment
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	Exams Final assignment
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	TA session Final assignment
	2.2. Students will be able to apply leadership theories and related skills.	Final assignment
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	Exams Final assignment
	3.2. Our students will practice ethics in the duration of the program.	Exams Final assignment
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	Exams Final assignment
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	Lectures Exams Final assignment
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	Exams Final assignment
	5.3. Our students will demonstrate competency in critical thinking.	Exams Final assignment

### 2.2 Course specific objectives

Please see Section 3 for specific course objectives

### 2.3 Assessment/Grading Details

Exam 1: 30%

Exam 2: 30%

Pop Quiz: 10%

Final Assignment: 30%

FYI, GPAs below 70 are considered as failure of the course by the PKU academic rule.

- **Exams:**

There will be two exams during the module (each, 30%). Both exams will include analytic (problem solving type) and short essay questions. Exam 1 will be in class on **Friday, March 31, 2017**. The Exam 2 will be in class on **Friday, April 21, 2017**. **There will be NO make-up exams.** Please plan carefully your schedule for the 2017 Spring module ahead.

- **Pop Quiz:**

There will be a pop quiz in class. The date you take the quiz will be random. **There will be NO make-up quiz.**

- **Final Assignment:**

Each student should choose one of the papers listed below and develop a research proposal *relevant* to the topic of the chosen paper. Once students select a paper, they must inform their choice to TA. The proposal must include the following sections: abstract, introduction, literature review, data, and empirical model. The proposal should identify the main research idea, originality of the idea, data source, econometrics framework, and identification strategy. The format in *Microsoft Word* should be as following: no more than 15 pages; font: Times New Roman; font size: 12pts; spacing: 1.5 line spacing and no spacing gap between paragraphs; indentation of a paragraph: 0.5 inch indentation of the first line; margins: 1 inch each on all four sides. The strict format rule will be considered on the evaluation. Each student must submit a final assignment by an **e-mail**, titled "**ECON 540: Final Assignment (PAPER TITLE)**" in the subject line, by **5:00pm, April 18, 2017 on SZT**. **Late submissions will NOT be accepted.** Copying contents from other students or papers (a.k.a. "**plagiarism**") are against the academic rule and will result in a "FAIL" of the course.

- **Rescheduling the Class:**

**April 4 (Ancestor Memorial Day) → April 5**, same venue and time.

- **Class Policy:**

Students are not allowed to use their laptops or cellphones in the classroom.

- **Communication:**

**CMS (Course Management System):** All course communication will be conducted via "CMS". All lecture notes, additional documents, assignments, schedules, and syllabi will be contained on the site. It is your responsibility to check "CMS" on a regular basis for course announcements and materials.

- **E-Mail:** Outside of the office hours, email is the best way to reach me. When sending me an email, please include "**ECON540**" in the subject line. I will also send emails individually and to the class. Please check your email regularly. Most of the time I will answer your emails within 24 hours; however, do not wait until the last minute to ask for help.

I have an open door policy. If you have problems with any aspect of the course and/or want to discuss anything (e.g., course material, career opportunities in economics, etc.), please feel free to schedule time with me. Do not wait till the end of module to discuss any issues.

## **2.4 Academic Honesty and Plagiarism**

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

### 3. Topics, Teaching and Assessment Schedule

#### Part 1: Introduction to Public Finance – JG Ch. 1&2

**Objective:** Students first pay attention to recent public or government policy issues in US and China. They learn the basic theoretical and empirical tools of public economics, and also study two key fundamental theorems of Welfare Economics. This section helps students have interests in public economics, and serves as a stepping stone for better understanding of the advanced topics in the course.

- Presentation; Course Overview;
- Introduction to Public Finance and Background

#### Parts 2: Externalities, Public Goods and Public Choice; Layers of Governments; Social Insurance

**Objective:** Students learn basic concepts of market failure and externalities. Then, they learn key roles of federal/state governments associated with its market failure. Also, students study several canonical models of public good provisions such as “warm glow” model.

- Welfare Economics; Market failures: definition, formalization, government role; Externalities: Theory; Private and Public Solutions; Applications: Environmental Damages; – JG Ch. 5&6
- Market Failures: Public goods; Club Goods; Common Property – JG Ch. 7
- Cost Benefit Analysis – JG Ch. 8; HP2 Ch.14
- Optimal Fiscal Federalism: State and Local Governments; Decentralization – JG Ch. 10
- Canonical Models of Public Good Provisions HP2 Ch.9

#### List of Readings

James Adreoni and Theodore Bergstrom, “Do government subsidies increase the private supply of public goods?,” *Public Choice*, 1996, 295-308

\* James Buchanan, “An economic theory of clubs,” *Economica*, 1965, 1-14.

\* H. Scott Gordon, “The economic theory of a common property resource,” *Journal of Political Economy*, April 1954, 124-142.

\* Theodore Bergstrom, Lawrence Blume and Hal Varian, “On the private provision of public goods,” *Journal of Public Economics*, 1986, 25-49.

\* Tiebout, Charles, “A pure theory of local expenditures,” *Journal of Political Economy*, 1956, 416-24.

\* Ronald Coase, “The problem of social cost,” *Journal of Law and Economics*, 1960, 1-44.

\* William Vickery, “Pricing in urban and suburban transport,” *American Economic Review*, 1963, 452-65.

#### Part 3: Social Insurance and Redistribution

**Objective:** Students learn basic concepts and roles of public insurance. Also, they understand the trade-off between consumption-smoothing and moral-hazard for social insurance. Also, they study different empirical models often used in health economics.

- Social Insurance and Social Security – JG Ch.12, HP5, Ch3.

- Health Insurance – JG Ch. 15&16
- Demand for Health Insurance – HH2 Ch.5
- Health Care Spending Risk, Health Insurance, and Payment to Health Plans – HH2 Ch.11
- Income Distribution and Welfare Programs – JG Ch. 17
- Welfare Programs and Labor Supply – HP4 Ch.34

### List of Readings

- Abel, A. B. "Precautionary savings and accidental bequests." *American Economic Review* 75, no. 4 (September 1985): 777-791.
- Brian Knight, "Endogenous Federal grants and crowd-out of State government spending: Theory and evidence from the Federal Highway Aid Program," *American Economic Review*, March 2002, 71-92.
- Diamond, P., and J. Geanakoplos. "Social Security Investment in Equities." *American Economic Review* (2003)
- Gruber, J., and M. Lettau. "How Elastic is the Firm's Demand for Health Insurance." July 2004, *Journal of Public Economics*.
- James R. Hines, Jr. and Richard Thaler, "Anomalies: The flypaper effect," *Journal of Economic Perspectives*, Fall 1995, 217-226
- Hurd, M., and S. Rohwedder. "The Retirement-Consumption Puzzle: Anticipated and Actual Declines in Spending at Retirement." *NBER Working Paper* 9586 (March 2003).
- Leora Friedberg, "The labor supply effects of the Social Security earnings test," *The Review of Economics and Statistics*, Volume 82 (1), February 2000, 48-63
- \* Martin Feldstein, "Social Security, induced retirement, and aggregate capital accumulation," *Journal of Political Economy*, Sep. 1974, 905-26.
- \* Michael Rothschild and Joseph E. Stiglitz, "Equilibrium in competitive insurance markets," *Quarterly Journal of Economics*, 1976, 629-49.

### Part 4: Health Care Reform

**Objective:** Students understand the backgrounds of the recent health care reform, known as "Affordable Care Act of 2010" in US, and learn the basic functions of Social Insurance and its effects on health. Also, students study different empirical models often used in health economics.

- Health Care Reform, Affordable Care Act (ACA)
- Policy evaluation, treatment effects (HE6 Ch 70 and 71)
- Health Econometrics – HH1 Ch.6
- Income Distribution and Welfare Programs – JG Ch.17

### List of Readings for the Final Assignment

**Akosa Antwi, Yaa; Asako S. Moriya and Kosali Simon.** 2013. "Effects of Federal Policy to Insure Young Adults: Evidence from the 2010 Affordable Care Act's Dependent-Coverage Mandate." *American Economic Journal: Economic Policy*, 5(4), 1-28.

**Akosa Antwi, Yaa; Asako S. Moriya and Kosali I. Simon.** 2015. "Access to Health Insurance and the Use of Inpatient Medical Care: Evidence from the Affordable Care Act Young Adult Mandate." *Journal of Health Economics*, 39, 171-87.

**Anderson, Michael L.; Carlos Dobkin and Tal Gross.** 2014. "The Effect of Health Insurance on Emergency Department Visits: Evidence from an Age-Based Eligibility Threshold." *Review of Economics and Statistics*, 96(1), 189-95.

**Attanasio, Orazio P. and Agar Brugiavini.** 2003. "Social Security and Households' Saving." *Quarterly Journal of Economics*, 118(3), 1075-119.

**Baicker, Katherine; Amy Finkelstein; Jae Song and Sarah Taubman.** 2014. "The Impact of Medicaid on Labor Market Activity and Program Participation: Evidence from the Oregon Health Insurance Experiment." *American Economic Review*, 104(5), 322-28.

**Bailey, James and Anna Chorniy.** 2016. "Employer-Provided Health Insurance and Job Mobility: Did the Affordable Care Act Reduce Job Lock?" *Contemporary Economic Policy*, 34(1), 173-83.

- Barbaresco, Silvia; Charles J. Courtemanche and Yanling Qi.** 2015. "Impacts of the Affordable Care Act Dependent Coverage Provision on Health-Related Outcomes of Young Adults." *Journal of Health Economics*, 40, 54-68.
- Barber, Brad M. and Terrance Odean.** 2001. "Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investment." *Quarterly Journal of Economics*, 116(1), 261-92.
- Behaghel, Luc and David M. Blau.** 2012. "Framing Social Security Reform: Behavioral Responses to Changes in the Full Retirement Age." *American Economic Journal: Economic Policy*, 4(4), 41-67.
- Bhaskar, V.** 2011. "Sex Selection and Gender Balance." *American Economic Journal: Microeconomics*, 3(1), 214-44.
- Bitler, Marianne P; Jonah B Gelbach and Hilary W Hoynes.** 2005. "Welfare Reform and Health." *Journal of Human Resources*, 40(2), 309-34.
- Borjas, George J.** 2003. "Welfare Reform, Labor Supply, and Health Insurance in the Immigrant Population." *Journal of Health Economics*, 22(6), 933-58.
- Borjas, George J.** 2012. "Health Difficulties in the Elderly Immigrant Population."
- Brown, Jeffrey R. and Amy Finkelstein.** 2008. "The Interaction of Public and Private Insurance: Medicaid and the Long-Term Care Insurance Market." *American Economic Review*, 98(3), 1083-102.
- Buchmueller, Thomas C.; Sarah Miller and Marko Vujcic.** 2014. "How Do Providers Respond to Public Health Insurance Expansions? Evidence from Adult Medicaid Dental Benefits." *National Bureau of Economic Research Working Paper Series*, No. 20053.
- Cadena, Brian C. and Brian K. Kovak.** 2013. "Immigrants Equilibrate Local Labor Markets: Evidence from the Great Recession." *National Bureau of Economic Research Working Paper Series*, No. 19272.
- Depew, Briggs.** 2015. "The Effect of State Dependent Mandate Laws on the Labor Supply Decisions of Young Adults." *Journal of Health Economics*, 39, 123-34.
- Depew, Briggs and James Bailey.** 2015. "Did the Affordable Care Act's Dependent Coverage Mandate Increase Premiums?" *Journal of Health Economics*, 41, 1-14.
- Diederich, Johannes and Timo Goeschl.** 2013. "To Give or Not to Give: The Price of Contributing and the Provision of Public Goods." *National Bureau of Economic Research Working Paper Series*, No. 19332.
- Fan, Elliott and Ruoyun Zhao.** 2009. "Health Status and Portfolio Choice: Causality or Heterogeneity?" *Journal of Banking & Finance*, 33(6), 1079-88.
- Grogger, Jeffrey.** 2002. "The Behavioral Effects of Welfare Time Limits." *The American Economic Review*, 92(2), 385-89.
- Kolstad, Jonathan T. and Amanda E. Kowalski.** 2012. "The Impact of Health Care Reform on Hospital and Preventive Care: Evidence from Massachusetts." *Journal of Public Economics*, 96(11-12), 909-29.
- Meyer, Bruce D. and Laura R. Wherry.** 2012. "Saving Teens: Using a Policy Discontinuity to Estimate the Effects of Medicaid Eligibility." *National Bureau of Economic Research Working Paper Series*, No. 18309.
- Miller, Sarah.** 2012. "The Effect of Insurance on Emergency Room Visits: An Analysis of the 2006 Massachusetts Health Reform." *Journal of Public Economics*, 96(11-12), 893-908.
- Monheit, Alan C.; Irina Grafova and Rizie Kumar.** 2014. "How Does Family Health Care Use Respond to Economic Shocks? Realized and Anticipated Effects." *National Bureau of Economic Research Working Paper Series*, No. 20348.
- Neeraj Kaushal.** 2005. "New Immigrants' Location Choices: Magnets without Welfare." *Journal of Labor Economics*, 23(1), 59-80.

**Pauly, Mark; Scott Harrington and Adam Leive.** 2014. "'Sticker Shock" in Individual Insurance under Health Reform." *National Bureau of Economic Research Working Paper Series*, No. 20223.

**Pavoni, Nicola; Ofer Setty and Giovanni L. Violante.** 2013. "Search and Work in Optimal Welfare Programs." *National Bureau of Economic Research Working Paper Series*, No. 18666.

**Rosen, Harvey S. and Stephen Wu.** 2004. "Portfolio Choice and Health Status." *Journal of Financial Economics*, 72(3), 457-84.

**Ward, Courtney J.** 2014. "Influenza Vaccination Campaigns: Is an Ounce of Prevention Worth a Pound of Cure?" *American Economic Journal: Applied Economics*, 6(1), 38-72.

**Watson, Tara.** 2014. "Inside the Refrigerator: Immigration Enforcement and Chilling Effects in Medicaid Participation." *American Economic Journal: Economic Policy*, 6(3), 313-38.

#### **4. Miscellaneous**