

Public Economics, Empirics and Theory

Syllabus, Fall 2011

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Classes: TBA

Course Description

This course is an introduction to empirical and theoretical Public Economics. Several disparate topics are going to be covered but common themes are market failures and the evaluation of state interventions. Economic theory should pinpoint the issue, while empirical work should be used to test the theory and provide policy recommendations.

Grading Policy

20 percent problem sets, 20 percent mid-term exam, 20 percent student participation to the class, 40 percent final exam. Attendance is mandatory.

Problem sets

Students are supposed to read a list of given papers before each class. Weekly problem sets will be assigned during the semester. Some of them are going to be applied, meaning work done on actual data using STATA (www.stata.com). I require that you typeset your solutions, and I recommend the use of *Latex*. You are allowed to work in groups of 2, but everybody has to submit his own answers. You can use Scientific Word, though I strongly suggest the use of Miktex (www.miktex.org) coupled with an editor (i.e. www.winedt.com). It is somehow an investment, but trust me: it pays off!

Class Schedule

Introduction to Public Economics (Myles, *Public Economics*)

- Study of economic policy, with some emphasis on taxation: Market failures; Social Security; Redistribution; Unemployment insurance

Theory

- Pareto vs. Competitive Equilibrium (*handout*)
- Externalities (*handout*)
 - Pigouvian taxes, atmosphere externalities
- Public Goods (*handout*)
 - Supply of Public Goods
- Compensating Functions (*handout*)
- Optimal Commodity Taxation (*handout*)
- Salience and Taxation (Chetty, Looney and Kroft, Salience and Taxation: Theory and Evidence, 2008, *American Economic Review*, Chetty, The Simple Economics of Salience and Taxation, August 2009)
- Income Taxation (Saez, Do Tax Payers Bunch at Kink Points, *American Economic Journal: Economic Policy*)

- Tax Evasion (*handout*, Measuring Illegal Activity and the Effects of Regulatory Innovation: Tax Evasion and the Dyeing of Untaxed Diesel, by Justin Marion, and Erich Muehlegger, *JPE* 2008)
- Taxation and Savings
- Social Security and Consumption Smoothing (*handout*, Heterogeneity in Intra-Monthly Consumption Patterns, Self-Control, and Savings at Retirement, with Matt Weinberg, *American Economic Journal: Economic Policy*)

Crime (*Deterrence, Incapacitation: Theory and Empirics*)

- Overview (Freeman, The Economics of Crime, *Handbook of Labor Economics*, Levitt and Miles, Empirical Study of Criminal Punishment, *The Handbook of Law and Economics*, 2004)
- Becker, Crime and Punishment: An Economic Approach, *Journal of Political Economy*, 1968
- Levitt, Using electoral cycles in police hiring to estimate the effect of police on crime, *American Economic Review*, 1997
- Barbarino and Mastrobuoni, The Incapacitation Effect of Incarceration: Evidence From Several Italian Collective Pardons, September 2007
- Mastrobuoni, Everybody Stay Cool, This is a Robbery, 2010
- Ilyana Kuziemko. Going Off Parole: How the Elimination of Discretionary Prison Release Affects the Social Cost of Crime. mimeo, 2006.
- Glaeser, Sacerdote, Scheinkman, Crime and Social Interactions, *The Quarterly Journal of Economics*, 1996
- David S. Lee and Justin McCrary. Crime, Punishment, and Myopia. NBER Working Papers 11491, National Bureau of Economic Research, Inc, July 2005.

Important and Useful Empirical Readings

- Angrist and Krueger (1999). Empirical strategies in labor economics, *The Handbook of labor economics* vol.III cap 23
- Bruce Meyer (1995). Natural and Quasi-Experiments in Economics, *Journal of Business & Economic Statistics*
- Hahn, Todd, and Van der Klaauw (2001), Identification and Estimation of Treatment Effects with a Regression-Discontinuity Design, *Econometrica* 69 (1), January.
- Wooldridge (2001) , *Econometric Analysis of Cross Section and Panel Data*
- Deaton (1997). The Analysis of Household Surveys, The Johns Hopkins University Press.
- Moulton (1990), An Illustration of a Pitfall in Estimating the Effects of Aggregate Variables on Micro Units, *RESTAT* 72.
- Wooldridge (2006), Cluster-Sample Methods in Applied Econometrics: An Extended Analysis, working paper (see his personal website).

The reading material, the topics covered, and their order is subject to change.