



# THE OHIO STATE UNIVERSITY

## JOHN GLENN SCHOOL OF PUBLIC AFFAIRS

Doctoral Seminar in Public Sector Economics

Public Affairs 8050  
Spring 2014

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Mondays 2-5 pm  
240 Page Hall  
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### **Purpose**

The purpose of this class is to introduce various topics in economics to doctoral students. The focus is on applications of economic theory to public policy analysis. The aims of the course include 1) Providing understanding of what economic analysis of public policy is and how it is done, 2) Providing exposure to economic ideas that matter for public policy, and 3) Providing exposure to the public sector economics-related research of Glenn School faculty.

Students should have prior preparation or coursework in intermediate microeconomics and public finance, as well as a course in mathematical economics or quantitative analysis and familiarity with statistics or econometrics, including regression analysis.

### **Class format**

For each class, two students will lead the discussion on the readings. The role of the instructor will be to (1) identify the assigned readings; (2) set the stage for the topic with an introduction and work with the two students to give highlights of the week's readings (3) general discussion moderated by the instructor (4) ensure that the main points for that week are properly addressed. A vehicle for ensuring that item (4) is attended to will be for the instructor to provide a couple of questions that could form the basis of a candidacy examination.

### **Class structure and requirements**

All students are expected to distribute their reaction to the readings to everyone in the class, including the instructor their summary of the reading by noon on the Sunday before the class.

Each week, after the class, students will submit their answers the questions for that week. These answers will be graded and returned and will form the basis of the final grade for the course.

## Course Objectives

The purpose underlying your having a rudimentary understanding of economics—micro and macro—is for you to be able to understand one of the core social science explanations of how society functions, especially when it comes to economic activity.

As a preamble to the more focused treatment of specific topics listed below together with the questions and the readings, there are some early scholars, mainly from the last century, whose names and the core concepts associated with them, that you should be aware of and perhaps, familiar.

Economic theory pertains to how economic activity occurs at and among three different levels: individuals, firms (for profit and non profit), and governments.

Microeconomics focuses on all three levels of analysis: the individual, the firm and the government. It includes theories of individual decision making. Here you need to understand what the basic assumptions are regarding the functioning of a free market. A free market is an abstraction, like any other theoretical construct, it is designed to help people make sense of economic transactions among individuals. The original notion of a free market is traced back to Adam Smith's *Wealth of Nations* (1776), which should be understood in the context of his earlier, and some would argue his better work, *The Theory of Moral Sentiments* (1759). Microeconomics textbooks include Varian (mathematical), Henderson and Quandt (less mathematical), Mansfield, Samuelson, etc.

In terms of analytics, you should be adept at manipulating supply and demand curves and be able to understand what might happen if supply (monopoly, oligopoly), demand, or prices (taxes, subsidies) were artificially manipulated.

Moving on to the next unit of analysis you need to understand the assumptions underlying the theory of the firm.

In terms of analytics, you should be adept at manipulating production and cost functions and budget constraints. You should understand different types of efficiency—allocative, technical, etc., —joint and multiple production and so forth. Many of the indices and the theoretical work on the properties of different types of indices have their origins in the measurement of efficiency.

Some authors you should be familiar with include Baumol, Crew, Cyert, March, Panzar, Spence, Williamson, Willig, Zeckhauser.

The third unit of analysis is the government. So, obviously Keynes and his contemporaries in Cambridge on either side of the Atlantic; Von Hayek and his descendants on supply side economics, Friedman on monetary economics.

In terms of analytics, you should be adept at manipulating IS-LM curves and be comfortable with thinking in terms of revenues (taxes, user fees, etc.) and expenditures (budgets, etc.).

Sundry stuff worth knowing includes the work of Kuznets (U.S.) and Stone (U.K.) on national income accounts, Tinbergen, Klein, etc., on input output analysis; Krugman, etc. on agglomeration economies; Stigler and Becker; Veblen and Commons on institutional economics. Before Samuelson and the mathematization of economics, one of the clearest expositions of microeconomics is to be found in Hicks' Theory and Value (1939). Hicks' discussion of IS-LM curves is also readily accessible to folks who abhor mathematical treatments.

You have had some exposure to the intersection of politics, sociology, psychology with economics and to a lesser extent, geography and economics, but much remains unexplored. The reach of economics is wide and deep and vital to the understanding policy analysis and its treatment of behavior of individuals and society.

### **Course Schedule**

**January 13: Introduction to subject matter and class format** **Desai**

**January 20: MLK – no class**

**January 27: Technology: Production, Cost, & Profit Functions** **Desai**

**February 3** Public goods and public choice **Desai**

Students should be able to articulate the characteristics of a good that makes it a “public good” and be able to discuss the efficient level of provision of public goods. Students should also be familiar with some of the classic literature examining how societies collectively make decisions regarding their provision. In this area you should be aware of the main arguments put forth by Samuelson, Arrow, Black, Buchanan, Downs, Niskanen, Olson, (Vincent) Ostrom, Sen, Stigler, and Tullock, among others.

Parry, I., Oates, W. 2000. Policy Analysis in the Presence of Distorting Taxes.

Journal of Policy Analysis and Management, 19:4, pp 603-613.

Coase, R. 1960. The Problem of Social Cost. The Journal of Law and Economics, 3, pp 1-43.

Musgrave, R. 1985, 2005. A Brief History of Fiscal Doctrine in Handbook of Public Economics, Volume 1. Auerbach, A and Feldstein, M. eds. Elsevier Press. Ch 1: 1-59

Samuelson, P. 1954. The Pure Theory of Public Expenditure. The Review of Economics and Statistics, 36:4, pp 387-389.

Ostrom, E. 2000. Collective Action and the Evolution of Social Norms. Journal of Economic Perspectives, 14:3, pp 137-158.

Denzau, A., Mackay, R. 1985. Tax systems and tax shares. *Public Choice* 45, pp 35-47.

<b>February 10</b>	Externalities/Regulation	<b>Jones</b>
<b>February 17</b>	Institutions	<b>Jones</b>

Regulation is one of the instruments that the government has to address externalities and some of the excess of the market. Students should be able to demonstrate the effects externalities have on markets and possible policy remedies, including an understanding of when and where the government could intervene and how regulation can be a viable option in that context. Students should also be able to more broadly discuss the role of institutions in the economy.

Clark (1926) *The Social Control of Business. Business: Private Right or Public Interest?* (Chapter 3) pp 32-51 and *Purposes of Social Control* (Chapter 5) pp 67-85. University of Chicago Press.

Kuttner (1997) *Everything for Sale: The Virtues and Limits of Markets* The Resurgent Market (Chapter 1) pp 11-38 and *The Imperial Market* (Chapter 2) pp 39-65.

Marshall & Veblen: *History of Economic Thought. Marshall, and His System of Equilibrium* (Chapter 32) pp 637-657 and *Veblen and Institutionalism* (Chapter 36) pp 718-733.

Friedman, M. *Capitalism and Freedom*. In particular chapter 2: *The Role of Government in a Free Society*.

Jones, D. 2013. *Bottling the Genie: Why deregulation is easy and reregulation is hard.* *Public Utilities Fortnightly*, pp 43-56.

<b>February 24</b>	Economics & Social Structure	<b>Moulton</b>
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Many economists now consider aspects of social structure in their models and analyses, and sociologists often intentionally contribute to questions about economic transactions. Students should have a general understanding of the different approaches to integrate social structure into analyses of economic transactions and economic analyses of social life, including classic scholars such as Karl Marx, Karl Polanyi and Peirre Bordeiu, as well as more recent approaches including Becker, Fligstein, Akerlof, Moffit and Arrow. We will use the lens of economic sociology to discuss a sociological approach to integration, with applications to the role of information and relationships in lending transactions.

#### Classics

Marx, Karl. (1867, 2000). *The Fetishism of the Commodity and Its Secret. In The Consumer Society Reader* (Schor and Holt, 2000) pg 331-342.

Polyani, Karl. (1944; 1957). *The Great Transformation: The Political and Economic Origins of Our Time*. Boston: Beacon Press.

Bordieu, Peirre. *The Social Structures of the Economy*.

#### Topical Background

- Coleman, James S. 1994. *A Rational Choice Perspective on Economic Sociology*, in the Handbook; 166-80.
- Becker, Gary S. 1976. *The Economic Approach to Human Behavior*. Chicago: The University of Chicago Press. Pp 3-14.
- Becker, Gary. 1993. Nobel Lecture: The Economic Way of Looking at Behavior. *The Journal of Political Economy* 101(3): 385-409.
- Hirshleifer, Jack. 1985. The Expanding Domain of Economics. *The American Economic Review* 75(6): 53-68.
- Frank, Robert (1985). *Choosing the Right Pond*, in *Choosing the Right Pond (STATUS)*
- Fligstein, Neil. 1996. Markets as Politics: A political-cultural approach to market institutions. *American Sociological Review* 61: 656-673.
- Akerlof, George and Rachel Kranton. 2005. Identity and the Economics of Organizations. *Journal of Economic Perspectives (IDENTITY)*
- Moffit, Robert. 1983. An Economic Model of Welfare Stigma. *The American Economic Review*. (NORMS)
- Arrow, Kenneth. 1974. *The Limits of Organization*. New York: Norton. (MORALITY)
- Akerlof, George. 1983. "Loyalty Filters." *American Economic Review* 73 (1): 54-63.
- Stigler, George and Gary Becker. 1977. De Gustibus Non Est Disputandum. *The American Economic Review* (EDOGENOUS PREFERNECES)

#### Economic Sociology

- Smelser, Neil J and Richard Swedberg. 1994. The Sociological Perspective on the Economy in *The Handbook of Economic Sociology*, Princeton, NJ: Princeton University Press, 3-26.
- Granovetter, Mark. 2005. The Impact of Social Structure on Economic Outcomes. *Journal of Economic Perspectives* 19(1), pp 33-50.
- Granovetter, Mark. 1985. Economic Action and Social Structure: The Problem of Embeddedness. *American Journal of Sociology* 91(3), pp 481-510.
- Granovetter, Mark, Swedberg, Richard. 2011. *The Sociology of Economic Life*. Westview Press.

#### Application to Banking & Lending

- Agarwal, Sumit; Hauswald, Robert. 2010. Distance and Private Information in Lending. *The Review of Financial Studies* 23(7), p 2757-2788.
- Peterson, Mitchell; Rajan, Raghuram. 2002. Does Distance Still Matter? The Information Revolution in Small Business Lending. *The Journal of Finance* 57(6), pp 2533-2570.
- Peterson, Mitchell, Rajan, Raghuram. 1994. The Benefits of Lending Relationships: Evidence from Small Business Data. *The Journal of Finance* 49(1), pp 3-37.
- Uzzi, Brian. 1999. Embeddedness in the Making of Financial Capital: How Social relations and Networks Benefit Firms Seeking Financing. *American Sociological Review* 64(4), p481-505.

**March 3** Principal agent relations, transaction costs and contracts **Brown**

Transaction cost theory provides an explanation for why organizations exist and where they draw their boundaries. The theory helps explain why some activities and functions are performed inside organizations and why others are acquired through transactions across organizational boundaries. Students should be able to lay out the foundational concepts, core assumptions, underlying logic and key hypotheses of the theory. Students should be able to describe the foundational assumptions about human analytical capacity and behavior: bounded rationality and opportunism. Students should also be equipped to assess the theory's application to public sector organizations.

**Readings:**

R.H. Coase. 1937. "The Nature of the Firm," *Economica* 4(16): 386-405.  
<http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0335.1937.tb00002.x/pdf>  
 O.E. Williamson. 1981. "The Economics of Organization: The Transaction Cost Approach," *The American Journal of Sociology* 87 (3): 548-577.  
<http://glennschool.osu.edu/faculty/brown/home/Org%20Theory/Readings/Williamson1981.pdf>  
 T. Brown and M. Potoski. 2003. "Transaction Costs and Institutional Explanations for Government Service Production Decisions," *Journal of Public Administration Research and Theory* 13(4): 441-468.  
 T. Brown, A. Roberts, Y.W. Kim, D. Albalade. 2014. "Managing Risk in Contracting: Product Characteristics and Contract Design," manuscript for submission to *Public Performance Management Review*.  
 Miller

<b>March 10</b>	<b>Spring Break – no class</b>	
<b>March 17</b>	Labor economics	<b>Hawley</b>

The purpose of this lecture is to describe labor economics, specifically as applied to human capital and the quality of labor. Students should be able to describe topics such as human capital theory, including how the definition has changed from the original specification in Schultz to the writing by Blaug and Behrman. They should also be able to discuss the how social and economic infrastructure impact the ability of government to improve the quality of labor and be able to describe the tools that governments can use to impact the production of skilled labor and how the required skills change in response to changes in the economy.

**Readings**

Autor, D. H., Levy, F., & Murnane, R. J. (2003). The Skill Content of Recent Technological Change: An Empirical Exploration. *Quarterly Journal of Economics*, 118(4), 1279-1333.  
 Behrman, J. (1987). Schooling and Other Human Capital Investments: Can the Effects be Identified. *Economics of Education Review*, 6(3).

- Blaug, M. (1976). Human Capital Theory: A Slightly Jaundiced View. *Journal of Economic Literature*, 14, 827-855.
- Culpepper, P. D. (2003). *Creating Cooperation: How States Develop Human Capital in Europe*. Ithaca: Cornell University Press.
- Murnane, R., J., Willet, J. B., & Levy, F. (1995). The Growing Importance of Cognitive Skills in Wage Determination. *Review of Economics and Statistics*, 77(2), 251-266.
- Schultz, T. W. (1961). Investment in Human Capital. *American Economic Review*, 51(1), 1-17.

**March 24**

Public finance

**Seligman**

The purpose of this lecture is to consider economic foundation of public finance. Students should be able to describe the relationship between tax capacity and the need for public goods. Students should also consider the alternatives of taxes versus incentives across spending bundles and the efficiency of tagging.

### **Readings**

#### I - Taxes

- 1 - On Intergenerational Burdens – Lim-Rogers (op ed)  
Lim Rogers, D. (2008). ‘Death Tax’ Repeal Unfair to Those Who Owe ‘Birth Tax’. Brookings Institution, published March 20, 2008.
  - 2 - On Tax Types - Inglis and Laffer (op ed)  
Inglis, B. Laffer, A. (2008). An Emissions Plan Conservatives Could Warm To. The New York Times, published December 28, 2008.
  - 3 - On Fundamental Tax Reform - Auerbach and Hassett  
"Introduction," Auerbach, A. and Hassett, K.,  
"Chapter 1" Bradford, D.  
"Chapter 2" Gale, W.  
Auerbach, A. Hassett, K. (2005). Toward Fundamental Tax Reform, Auerbach, A. and Hassett, K. eds. American Enterprise Institute Press, Washington, D.C.
- Gale, W. (2005). Tax Reform Options in the Real World. In On Fundamental Tax Reform, Auerbach, A. and Hassett, K, eds. American Enterprise Institute Press, Washington D.C.

#### II - Expenditures

- 1 - Moffitt  
Moffitt, R. (1983). An Economic Model of Welfare Stigma. The American Economic Review 73(5):1023-1035.
- 2 - Englehart and Gruber  
Englehardt, G and Gruber, J. (2006). Social Security and the Evolution of Elderly Poverty. In Public Policy and the Income Distribution. Auerbach, Card and Quigley, eds. Russell Sage Foundation.

### III - Taxes and Expenditures as bundles

#### -1 - On Federalism – Tiebout

Tiebout, C. (1956). A Pure theory of Local Expenditures. *Journal of Political Economy* 64(5): 416-424.

#### -2 - On Expenditures Conditional on Tax Inefficiency - Akerlof

Akerlof, G. (1978). The Economics of “Tagging” as Applied to the Optimal Income Tax, Welfare Program, and Manpower Planning. *The American Economic Review* 68(1): 8-19.

## March 31

## State and local public finance

## Greenbaum

State and local public finance considers the choices subnational governments make regarding options for raising revenues and expenditures on public goods. These governments pursue policies to increase their fiscal capacity, and many of their efforts focus on providing economic development incentives to attract and retain businesses. Students should be able to clearly articulate the economic justifications for the provision such incentives.

### Questions

Question 1. The majority of state and local governments offer some sort of economic development incentives. Some people have criticized offering incentives, claiming that they result in nothing more than zero-sum transfers. Address this claim, paying particular attention to potential “winners” and “losers.” Feel free to use examples.

Question 2. The majority of state and local governments offer some sort of economic development incentives. Why? Critically assess some of the primary equity and efficiency justifications that have been posited.

### Key overviews

Bartik, Timothy J. *Who Benefits from State and Local Economic Development Incentives?* Kalamazoo, MI: W.E. Upjohn Institute for Employment Research (1991).

Eisinger, Peter K. *The rise of the entrepreneurial state: State and local economic development policy in the United States.* Univ of Wisconsin Press, 1988.

### Policy justification

Rosenthal, Stuart S., and William C. Strange. "Evidence on the nature and sources of agglomeration economies." *Handbook of regional and urban economics* 4 (2004): 2119-2171.\*

Henderson, J. Vernon. "Efficiency of resource usage and city size." *Journal of Urban Economics* 19, no. 1 (1986): 47-70.

Greenstone, Michael, Richard Hornbeck, and Enrico Moretti. *Identifying agglomeration spillovers: evidence from million dollar plants.* No. w13833. National Bureau of Economic Research, 2008.

Ladd, Helen F. "Spatially Targeted Economic Development Strategies: Do They Work?." *Cityscape* 1, no. 1 (1994): 193-218.\*



Greenbaum, Robert, and Daniele Bondonio. "Losing focus: a comparative evaluation of spatially targeted economic revitalization programmes in the US and the EU." *Regional Studies* 38, no. 3 (2004): 319-334.\*

#### Taxes and economic growth

Reed, W. Robert. "The robust relationship between taxes and US state income growth." *National Tax Journal* (2008): 57-80.

Wasylenko, Michael. "Taxation and economic development: the state of the economic literature." *New England Economic Review* Mar (1997): 37-52.

Due, John F. "Studies of state-local tax influences on location of industry." *National Tax Journal* (1961): 163-173.

#### Policy Approaches

Reese, Laura A., and Gary Sands. "Creative class and economic prosperity: old nostrums, better packaging?." *Economic Development Quarterly* 22, no. 1 (2008): 3-7.\*

Zheng, Lingwen, and Mildred Warner. "Business incentive use among US local governments: A story of accountability and policy learning." *Economic Development Quarterly* 24, no. 4 (2010): 325-336.

Bartik, Timothy J. "Solving the problems of economic development incentives." *Growth and Change* 36, no. 2 (2005): 139-166.\*

#### Economic gardening

Gibbons, Christian. "Economic gardening." *Economic Development Journal* 9, no. 3 (2010): 5.\*

Barrios, Sharon, and David Barrios. "Reconsidering economic development: The prospects for economic gardening." *Public Administration Quarterly* (2004): 70-101.

#### Do they work?

Courant, Paul N. "How would you know a good economic development policy if you tripped over one? Hint: don't just count jobs." *National Tax Journal* (1994): 863-881.\*

Greenbaum, Robert T., and Jim Landers. "Why Are State Policy Makers Still Proponents of Enterprise Zones? What Explains Their Action in the Face of a Preponderance of the Research?." *International Regional Science Review* 32, no. 4 (2009): 466-479.\*

Dye, Richard F., and David F. Merriman. "The effects of tax increment financing on economic development." *Journal of Urban Economics* 47, no. 2 (2000): 306-328.\*

Bondonio, Daniele, and Robert T. Greenbaum. "Do local tax incentives affect economic growth? What mean impacts miss in the analysis of enterprise zone policies." *Regional Science and Urban Economics* 37, no. 1 (2007): 121-136.

Partridge, Mark D., Dan S. Rickman, and Hui Li. "Who wins from local economic development? A supply decomposition of US county employment growth." *Economic Development Quarterly* 23, no. 1 (2009): 13-27.\*

Fisher, Peter S. *State enterprise zone programs: Have they worked?*. WE Upjohn Institute, 2002.

Gabe, Todd M., and David S. Kraybill. "The effect of state economic development incentives on employment growth of establishments." *Journal of Regional Science* 42, no. 4 (2002): 703-730.

#### Additional readings

Fisher, Peter S., and Alan H. Peters. "Industrial incentives: Competition among American cities and states." WE Upjohn Institute (1998).

Anderson, John Edwin, and Robert W. Wassmer. *Bidding for business: The efficacy of local economic development incentives in a metropolitan area*. WE Upjohn Institute, 2000.

**April 7**

Information

**Hooker**

The purpose of this lecture is to unpack the role of information in economic transaction. Students should be able to identify the role of information in addressing market failures. Students should be able to consider who has information, to what precision/time and the link between information, knowledge and behavior. Consider the interactions of an information policy with other tools. Think about how information should be approached relative to issues of horizontal and vertical equity.

#### Readings

Akerlof, George. 1970. The Market for "Lemons": Quality Uncertainty and the Market Mechanism. *The Quarterly Journal of Economics* 84(3), p 488-500.

Grossman, Sanford. 1981. The Informational Role of Warranties and Private Disclosure About Product Quality. *Journal of Law and Economics* 24, p 461-489.

**April 14**

Macro topics

**Seligman**

The purpose of this lecture is to familiarize students with a variety of factors important to the macro-economy, including international capital flows and lifecycle savings and economic growth. Be able to compare and critique classic arguments including those made by Ando, Modigliani, Bernanke, Solow, and Samuelson. Be able to describe relevant macro models, including the ISLM model, economic colonialism and the role of institutions. This lecture includes a discussion of the micro-foundations of the macro economy, including an example of applications of behavioral economics to financial decision-making.

#### Readings

-I- Macro models of relevance:

-1- ISLM model – as described by Mankiw (text book chapter)

Mankiw, G. 2012. *Macroeconomics* 8<sup>th</sup> Edition. Worth Publishers

-2- Solow

-II- International Capital Flows, Savings and Banking:

-1- Allen and Gale

Allen, F and Gale, D. 2007. Understanding Financial Crises. Oxford University Press. Oxford.

-2- Bernanke

Bernanke, B. 2005. The Global Saving Glut and the U.S. Current Account Deficit. Remarks presented at the Sandridge Lecture, Virginia Association of Economists, Richmond Virginia.

-III- Lifecycle Savings Behavior:

-1- Samuelson (with or without money)

Samuelson, P. 1958. An Exact Consumption-Loan Model of Interest with or without the Social Contrivance of Money. *The Journal of Political Economy* 66(6), 467-482.

-2- Ando & Modigliani

Ando, A. and Modigliani, F. 1963. The "Life Cycle" Hypothesis of Saving: Aggregate Implications and Tests. *The American Economic Review* 53(1), 55-84.

-IV- Savings, Investment and Behavioral Finance related topics:

-1- Seligman & Bose

Seligman, J. and Bose, R. 2012. Learning by doing: Active employer sponsored retirement savings plan participation and household wealth accumulation. *The Quarterly Review of Economics and Finance* 52, 162-172.

-2- Mandrian & Shea

Mandrian, B. and Shea, D. 2001. The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior. *The Quarterly Journal of Economics* 116(4), 1149-1187

**April 21** Bringing Everything Together

**Desai**

**Academic Integrity** It is the responsibility of the Committee on Academic Misconduct to investigate or establish procedures for the investigation of all reported cases of student academic misconduct. The term "academic misconduct" includes all forms of student academic misconduct wherever committed; illustrated by, but not limited to, cases of plagiarism and dishonest practices in connection with examinations. Instructors shall report all instances of alleged academic misconduct to the committee (Faculty Rule 3335-5-487). For additional information, see the Code of Student Conduct ([http://studentaffairs.osu.edu/info\\_for\\_students/csc.asp](http://studentaffairs.osu.edu/info_for_students/csc.asp)).

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