Doctoral Seminar in Public Sector Economics

Public Affairs 8050
Spring 2014

Anand Desai       Mondays 2-5 pm
310 D Page Hall    240 Page Hall
desai.1@osu.edu    Office hours: by appointment

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.


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.


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

Topical Background
Frank, Robert (1985). *Choosing the Right Pond*, in Choosing the Right Pond (STATUS)

**Economic Sociology**

**Application to Banking & Lending**

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:

March 10       Spring Break – no class
March 17       Labor economics

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


**March 24 Public finance**

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)

-2 - On Tax Types - Inglis and Laffer (op ed)

-3 - On Fundamental Tax Reform - Auerbach and Hasset
   "Introduction," Auerbach, A. and Hassett, K.,
   "Chapter 1" Bradford, D.
   "Chapter 2" Gale, W.


II - Expenditures

-1 - Moffitt

-2 - Englehart and Gruber
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

Policy justification

**Taxes and economic growth**


**Policy Approaches**


**Economic gardening**


**Do they work?**


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

Additional readings

**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**

**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)
-2- Solow

-II- International Capital Flows, Savings and Banking:
-1- Allen and Gale

Bernanke

-III- Lifecycle Savings Behavior:
-1- Samuelson (with or without money)

-2- Ando & Modigliani

-IV- Savings, Investment and Behavioral Finance related topics:
-1- Seligman & Bose

-2- Mandrian & Shea

April 21 Bringing Everything Together

**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).

**Disability Statement** “Students with disabilities that have been certified by the Office for Disability Services will be appropriately accommodated. Students should inform the instructor as soon as possible of their needs. The Office for Disability Services is located in 150 Pomerene Hall, 1760 Neil Avenue; telephone 292-3307, TDD 292-0901; http://www.ods.ohio-state.edu/“