



Professor Ned Hill
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Office Hours: Monday 2PM to 4PM or by appointment

Meeting time: Monday 9:00 – 12:00
Classroom: Page Hall 0240

Syllabus date: January 7, 2018

Description: The purpose of the course

The course is designed to introduce doctoral students to the economics of the public sector: its size, scope, and impact on the allocation of goods, services, and opportunities as well as finding ways to pay for them. In so doing, the course covers public choice aspects of non-market resource allocation. Material is drawn from public sector economics, public choice theory, and public budgeting and public finance.

A goal of the course is to prepare doctoral candidates at the Glenn College for their general examinations in addition to helping them shape their research and teaching. Students should be able to approach public policy issues rigorously, apply heuristic, or logic, models based on economic behavior to public policy issues, and develop testable hypotheses about expected outcomes.

There are three components to the academic practice of public policy: policy evaluation, policy theory, and policy formation. You can think of these as the positive and normative sides of our field. *Evaluating public policies* occupies the central ground of the academic enterprise and is an exercise in positive analysis. The work can be technically challenging, but in academic terms it occupies the safest ground because it is hypothesis driven and historical. There is a stated outcome, goal or objective. Behavioral theories from economics, political science, and sociology generate hypothesized outcomes. Policies have been implemented, frequently money has been spent and outcomes generated. And, multiple methods exist for testing the outcomes. The second branch of the field is normative and it consists of *theory building*, where small abstract behavioral models are developed and predictions about outcomes are made. It is also an arena where politics is frequently absent and it is an intellectual space that is frequently occupied by microeconomists. The exception is the work done on public choice theory.

The third branch of the field is *public policy formation*. Public policy formation is about changing behaviors, changing resource distributions, correcting market or government failures, or shaping markets to reach some social objective. Unfortunately, it is also here where industries are protected against competition, special interests argue for specific distributions of resources or income, and where taxation theory is best represented by a quote attributed to Louisiana's storied Depression-era Senator, Russell B. [Huey] Long: "Don't tax you; don't tax me; tax the fellow behind the tree."

Policy formation is where public policies are imagined and designed, coalitions are built to argue for them, and the process of implementing and managing the policy takes place. Evaluation is by definition an exercise in historical research; policy formation is forward looking. As an aside, I have always found it curious that academicians put greater professional weight in public policy evaluation than on public policy formation.

Course Components

The majority of each class meeting will consist of discussing the assigned readings in seminar fashion. I will begin each session with a short presentation and then students will present the assigned articles to the class. Knowledge gained in this more traditional portion of the seminar will be examined by a mid-term examination and part of the take-home final examination. Please use [and hopefully improve] the *rubric* that I provide on how to review an article at the end of this section of the syllabus.

- 1) Class participation, Weight: 10%. Class participation does not mean presenting opinions, it reflects making positive contributions to class discussions. This includes asking each other questions in ways that reflect knowledge of the readings and a thoughtful reflection on the literature as well as interacting with class participants in a respectful manner.
- 2) Presentation of reading materials, Weight: 20%. Successful presentations reflect a thoughtful and complete discussion of the selected reading. The presentation should reflect all portions of the rubric that is discussed in the seminar.
- 3) Midterm examination, Weight 30%. The examination will be a take home.
- 4) Final Examination, Weight 40%—in-class
 - a. Examination of a cumulative understanding of the readings and discussions. These questions will be designed to approximate the general examination questions.
 - b. The examination will be scheduled for two hours with the same rules as will hold for the Glenn College Ph.D. General Examinations.

Academic Integrity/ Academic misconduct

(From: <http://oaa.osu.edu/coamfaqs.html#academicmisconductstatement>)

The Ohio State University and the Committee on Academic Misconduct (COAM) expect that all students have read and understand the University's Code of Student Conduct and that all students will complete all academic and scholarly assignments with fairness and honesty. Failure to follow the rules and guidelines established in the University's Code of Student Conduct may constitute "Academic Misconduct." Sanctions for the misconduct could include a failing grade in this course and suspension or dismissal from the University.

In the Ohio State University's Code of Student Conduct, Section 3335-23-04 defines academic misconduct as: "Any activity that tends to compromise the academic integrity of the University, or subvert the educational process." Examples of academic misconduct include (but are not limited to) plagiarism, collusion (unauthorized collaboration), copying the work of another student, and possession of unauthorized materials during an examination. Ignorance of the University's Code of Student Conduct is never considered an "excuse" for academic misconduct.

If you have any questions about the above policy or what constitutes academic misconduct in this course, please contact me.

Other sources of information on academic misconduct (integrity) to which you can refer include:

- The Committee on Academic Misconduct web page: <http://oaa.osu.edu/coam.html>
- Ten Suggestions for Preserving Academic Integrity: <http://oaa.osu.edu/coamtensuggestions.html>
- Eight Cardinal Rules of Academic Integrity: www.northwestern.edu/uacc/8cards.html

Mental Health Statement

As a student, you may experience a range of issues that can cause barriers to learning, such as strained relationships, increased anxiety, alcohol/drug problems, feeling down, difficulty concentrating and/or lack of motivation. These mental health concerns or stressful events may lead to diminished academic performance or reduce a student's ability to participate in daily activities. The Ohio State University offers services to assist you with addressing these and other concerns you may be experiencing. If you or someone you know is suffering from any of the aforementioned conditions, you can learn more about the broad range of confidential mental health services available on campus via the Office of Student Life Counseling and Consultation Services (CCS) by visiting ccs.osu.edu or calling 614-292- 5766. CCS is located on the 4th Floor of the Younkin Success Center and 4th Floor of the PAES Building. 24-hour emergency help is also available through the National 24/7 Prevention Hotline at 1-800-273-TALK or at suicidepreventionlifeline.org

Grading

93 – 100	A	80 - 82	B-	68 – 69	D+
90 – 92	A-	78 - 79	C+	64 – 67	D
88 - 89	B+	73 - 77	C	63 & below	E
83 - 87	B	70 - 72	C-		

There is no grade of "D-" at Ohio State.

For a narrative explanation of what constitutes an "A," "A-," etc. see faculty rules: <http://trustees.osu.edu/rules/university-rules/rules8/ru8-21.html>

Grade Appeals

The assigned grade is designed to show the overall quality of work performed by each student. If you believe that any grade was not properly assigned you may write a letter explaining why you believe the grade was incorrectly assigned within one week of receiving the graded assignment back. Each appeal will be considered, and if a re-grade is performed, the entire assignment will be re-graded. The final grade may be greater, less, or equal to the original grade.

Resources

Statistical Consulting: Students wishing to have additional help with the statistical analysis for their papers may consult with the Statistical Consulting Service (www.scs.osu.edu/) and enroll in their Stat 5700 course (<http://www.scs.osu.edu/stat5760.html>).

Writing Consulting: Students wishing to have additional help with the writing of their papers can meet with a consultant at the Writing Center (<https://cstw.osu.edu/writing-center>).

Library Assistance: The Glenn College has a dedicated librarian at OSU Libraries, David Lincove (lincove.1@osu.edu), who can help provide research assistance. For more information and links to some common public affairs resources, see - <http://go.osu.edu/8gx>.

CLASS ASSIGNMENTS AND READING

The number given to a topic corresponds to the folder on Carmen; not the week of the semester. There are 17 subject areas and 14 class sessions. This means that some weeks we will be covering two folders of material.

*Indicates an optional reading

Books we will be reading

Buchanan, James M. and Richard A. Musgrave. 1999. *Public Finance and Public Choice: Two Contrasting Visions of the State*. MIT Press.

Lewis, Michael. 2017. *The Undoing Project*. Norton. I am assigning parts of Lewis' book as section 6. The assigned reading consists of 103 pages out of 352 pages.

If you want a welfare economics text, then examine Feldman, Allan M. and Roberto Serrano (2006) *Welfare Economics and Social Choice Theory*, 2nd Edition. Springer. Do not buy the first edition. The second edition is available through OSU's library as an e-book and can be purchased for \$30 if you hunt for the right screen because of the University's purchase. **Do not pay \$230 for it.** The problem is that I cannot find the screen—I did purchase the book this way in the spring of 2015. Call Springer's order line at: 212-460-1500 to find the discount if you cannot find the screen online. This is a technical book and can serve as a text for the welfare economics portion of the course. It has all of the math and it is well written.

<http://www.springer.com/us/book/9780387293677>

Assignments

0: Economics and public policy advice

Power Point: Working with Elected Officials

Power Point: Structured Problem Solving ~ A consultant's version of policy research

1: On Offering Public Policy Advice

Hausman, D. M. 1989. "Economic methodology in a nutshell," *Journal of Economic Perspectives*, Spring, 3(2): 115-127.

Markusen, Ann R. 1999. "Fuzzy concepts, scanty evidence, policy distance: The case for rigor and policy relevance in critical regional studies," *Regional Studies* 33(9): 869-884.

Vaughan, Roger J. 1988. "Economists and economic development," *Economic Development Quarterly*. 2(2): 119-123.

Acemoglu, Daron and James A. Robinson. 2013. "Economics versus politics: Pitfalls of policy advice." *Journal of Economic Perspectives*. Spring 27(2): 173-192.

2: On Economic Models

Krugman, Paul. 2011. "The New Economic Geography, Now middle-aged." *Regional Studies* (45)11: 1-7.

Krugman, Paul. 1996. Chapter 3: "Models and metaphors." *Development, Geography, and Economic Theory*. MIT Press, pp. 67-88.

Varian, Hal R. 1997. "How to build an economic model in your spare time." *The American Economist*, Fall, 41(2): 3-10.

Taylor, Timothy. 2012. "From the desk of the Managing Editor." *Journal of Economic Perspectives*. Spring. 26(2): 27-40. This is a short essay from the editor of the journal on academic writing in the area of economics

*Rodrik, Dani. 2015. *Economics Rules*. Norton. Nontechnical understanding of economic methodology and the use of abstract models. Of particular interest pp. 1-82; 147 to 176; and 213-216.

3: Human capital

Gary Becker's Obituary, *New York Times*, May 14, 2014

Nobel Brief on the work of Gary Becker_1992

Becker, Gary. 1993. "The economic way of looking at behavior," *Journal of Political Economy*, June, 101(3): 385-409. [Nobel Address]

Oi, Walter, 1962. "Labor as a Quasi-Fixed Factor," *Journal of Political Economy*, December, 70: 538-555.

Power Point: The four-part model of Public Affairs and public policy analysis

4: Public Economics as a Field of Study

Musgrave, Richard. 1985. "A brief history of fiscal doctrine." Aurbach, A. and M. Feldstein [eds.] *Handbook of Public Economics*. Elsevier Press.

Scherer, F.M. 2000. "The emigration of German-speaking economists after 1933." *Journal of Economic Literature*, September, 38(3): 614-626.

Dreze, Jaques H. 1995. "Forty years of Public Economics: A personal perspective." *Journal of Economic Perspectives*, Spring, 9(2): 111-130.

Poterba, James M. 2002. "Recent developments in and future prospects for Public Economics." *The American Economist*, Fall, 46(2): 20-30.

Two of NBER's Program Reports on Public Economics. 2005/2006 and 2012.

Atkinson, Anthony B. 2012. "The Mirrlees Review and the state of Public Economics." *Journal of Economic Literature*, September, 50(3): 770-780.

5: Public Expenditure and Welfare Maximization

Krugman, Paul. February 6, 2016. "In defense of funny diagrams." Blog post, New York Times.

DeLong, Brad. February 2016. "A Few Scattered Notes, Observations, and Examples of Graphs and Diagrams in Teaching and Doing Economics/The Honest Broker." Blog post.

Bator, Francis. 1957, "The simple analytics of welfare maximization," *American Economic Review* (March) 47(1): 22-59.

Samuelson, Paul A. 1954. "A pure theory of public expenditure." *The Review of Economics and Statistics*, November, 36(4): 387-389.

Samuelson, Paul A. 1955. "A diagrammatic exposition of a theory of expenditure." *Review of Economics and Statistics*, November, 37(4): 350-356.

6. Decision science, utility theory and the start of behavioral economics

Lewis, Michael. 2017. *The Undoing Project*.

Chapters 7: pp. 196-211;

Chapter 8: 212-237;

Part of Chapter 9: 247-290;

Part of Chapter 12: 322-330; and

Part of the Coda: 339-347.

7. Market failure

Bator, Francis M. 1958. Anatomy of Market Failure." *Quarterly Journal of Economics* August. 72(3): 351-379.

Timothy J. Bartik. 1990. "The market failure approach to regional economic development policy." *Economic Development Quarterly* 4(4): 361-370.

Stiglitz. Chapter 4. Market Failure

8. Transactions costs

Coase, Ronald H. 1992. "The institutional structure of production," Nobel Lecture. *American Economic Review*, September 82(4): 713-719.

Coase, Ronald H. 1937. "The nature of the firm." *Economica* 4(16): 386-405.

Williamson, Oliver E. 1981. "The economics of organizations: The transactions cost approach." *American Journal of Sociology* 87(3): 548-577.

Coase, Ronald H. 1988. "The nature of the firm: Influence." *Journal of Law, Economics & Organization*, Spring 4(1): 33-47.

Williamson, Oliver E. 2010. "Transaction cost economics: The natural progress," Nobel Lecture. *American Economic Review*, June 100: 673-690
Nobel Economic Sciences Prize Committee. 2009. Economic Governance, Scientific Background Paper, pp. 1-8

9: Public Finance and Public Choice: Philosophy and pragmatism

Musgrave and Musgrave, Chapter 1. Fiscal Functions
Oates, Wallace E. 1999. "An essay on Fiscal Federalism." *Journal of Economic Literature*, September, 37(3): 1120-1149.
Buchanan, James M. 1987. "The constitution of economic policy: Nobel Prize Lecture." *American Economic Review*, June, 77(3): 243-250.
Buchanan, James M. 1975. "Public finance and public choice." *National Tax Journal*, December, 28(4): 383-394.

10: Two philosophical views: Buchanan and Musgrave

Buchanan and Musgrave. 1999.
Day 1: Origins of their philosophy and thinking. pp. 1-62.
Day 2: Fiscal Tasks; pp.63-106.
Day 3: Political Action ~ Public Choice; pp. 107-154.
Day 4: Fiscal Federalism; pp. 155-204
Day 5: Morals, Politics, & Institutional Reform; pp. 205-258.

11: Local Public Finance and Public Choice

Tiebout, Charles M. 1956. "A pure theory of local government expenditures," *Journal of Political Economy*: 416-424. [Also in *The Tiebout Model at 50* pp. xi-xxi]
Fischell, William A. 2006. Footloose at Fifty: An introduction to the Tiebout Anniversary Essays. *The Tiebout Model at Fifty*. Lincoln Institute of Land Policy pp. 1-20.
Oates, Wallace E. 2006. The many faces of the Tiebout model, and Inman's commentary, *Tiebout at 50*, pp. 21-54.
Hoyt, William H. 2006. Imperfect competition between communities, politics, and capitalization, and Schwab's commentary, *Tiebout at 50*. pp. 127-157.
Buckley, Jack and Mark Schneider. 2006. School choice, parental information, and Tiebout sorting, and McGuire's commentary, *Tiebout at 50*. Pp101-126.
Krane, Dale, Carol Ebdon and John Bartle. 2004. "Devolution, Fiscal Federalism, and Changing Patterns of Municipal Revenues: The Mismatch between Theory and Reality." *Journal of Public Administration Research and Theory* 14(4):
* Wolman, Harold. 1988. "Local Economic Development Policy: What explains the divergence between policy analysis and political behavior?" *Journal of Urban Affairs*. 10(1): 19-28.
* Wolkoff, Michael. 1992. "Is Economic Development Decision Making Rational?" *Urban Affairs Review*. March 27(3): 340-355.

12: Agglomeration

Chinitz, Benjamin. 1961. "Contrasts in agglomeration: New York and Pittsburgh," *American Economic Review* 51(2) (May): 279-289.
Glaeser, Edward L. and Joshua Gottlieb. 2009. The Wealth of Cities: Agglomeration economies and spatial equilibrium. National Bureau of Economic Research Working Paper 14806.
Bolton, Roger. 1992. "'Place prosperity versus people prosperity' revisited: An old issue with a new angle" *Urban Studies* 29(2): 185-203.
Hsieh, Chang-Tai and Enrico Moretti. 2015. Why do cities matter? Local growth and aggregate growth. National Bureau of Economic Research, Working Paper 21154.

- Glaeser, Edward L. 2003. *Reinventing Boston: 1640-2003*. Harvard Institute of Economic Research Discussion Paper 2017.
- Glaeser, Edward L. 2005. *Urban Colossus: Why is New York America's Largest City?* Harvard Institute of Economic Research Discussion Paper 2073.

13: Baumol's Cost Disease

Popular articles

- Surowiecki, James. 2003. "What ails us." *New Yorker*. 27.
- Roberts, Sam. 2003. "When cities go broke, the options are few." *New York Times* (April 20, 2003).

Academic work

- Comin, Diego. 2006. *Total Factor Productivity*, NBER
- Baumol, William J. 1963. "Urban services: Interactions of public and private decisions." In Howard G. Schaller [ed.] *Public Expenditure Decisions in the Urban Community*. Washington, DC: Resources for the Future.
- Baumol, William J. 1967. "Macroeconomics of unbalanced growth." *American Economic Review*, June: 57(3): 415-426.
- Baumol, William J., et al. 1985. "Unbalanced growth revisited: Asymptotic stagnancy and new evidence." *American Economic Review*, September 74(4):806-817.
- Triplet, Jack E. and Barry Bosworth. 2005. "Productivity measurement issues in services industries: Baumol's disease has been cured." *Economic Policy Review*, September 9(3):23-33.
- Wolf, Edward N., William J. Baumol, and Anne Noyes Saini. 2014. "A comparative analysis of education costs and outcomes: The United States vs. other OECD countries." *Economics of Education Review* 39:1-21.
- Bates, Laurie and Rexford Santerre. 2015. "Does Baumol's cost disease account for nonfederal public-sector cost growth in the United States? A new test of an old idea." *Social Science Quarterly* 96(1): 251-260.

14: Why Is Change Difficult? Government, Institutions and Markets

Popular articles

- Albert Hirschman. Obituary. *The Economist* 2013.
- Press, Eyal. January 4, 2018. "Reading Albert Hirschman (and Michael Wolff) in Trump's Washington." *New Yorker Blog*. <https://www.newyorker.com/news/daily-comment/reading-albert-hirschman-and-michael-wolff-in-trumps-washington>

Academic work

- Hirschman, Albert O. 1970. Ch. 7: "A theory of loyalty," in *Exit, Voice and Loyalty*. Harvard University Press: 77-126.
- Hirschman, Albert O. 1978. *Exit, Voice, and the State*. *World Politics* 31(1): 90-107.
- Olson, Mancur (1984) *The Rise and Decline of Nations*. (Yale University Press) Chapters 1-3, pp. 1-74
 Chapter 1 The questions and the standards a satisfactory answer must meet
 Chapter 2 The logic; Chapter 3 The implications
- Rosser, J. Barkley. 2007. "The Rise and Decline of Mancur Olson's View of "The Rise and Decline of Nations" *Southern Economic Journal*. July. 74(1): 4-17.

15: Collective Action

Popular article

- Rowley, Sylvia. April 19, 2016. How dwindling fish stocks got a reprieve. *New York Times*.

Academic work

- Nobel Economic Sciences Prize Committee. 2009. Economic Governance, Scientific Background Paper, pp. 8-19
- Ostrom, Elinor. 2010. "Beyond markets and states: Polycentric governance of complex economic systems," Nobel Lecture. *American Economic Review*, June 100: 641-672.
- Whaples, Robert and Jac C. Heckelman. 2005. "Public choice economics: Where is the consensus?" *American Economist*, Spring, 49(1): 66-7.
- Ostrom, Elinor. 2000. "Collective action and the evolution of social norms." *The Journal of Economic Perspectives* 14(3): 137-158.
- Granovetter, Mark. 2005. "The impact of social structure on economic outcomes." *The Journal of Economic Perspectives* 19(1): 33-50.
- *Cox, Michael et al. 2010. "A review of design principles for community-based natural resource management." *Ecology and Society*. 15(4): 38.
- *Cox, Michael et al. 2009. Design Blue Prints, But Are They Robust? A meta-analysis of 112 studies. Lincoln Land Institute of Land Policy, Working Paper.

16: Introduction to Behavioral Economics

Popular articles

- Cassidy, John. October 10, 2107. The making of Richard Thaler's Economics Nobel. *New Yorker* blog.
- Audio: Thaler, Richard H. - Prize Lecture: From Cashews to Nudges: The Evolution of Behavioral Economics". Nobelprize.org. Nobel Media AB 2014. Web. 5 Jan 2018. <http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2017/thaler-lecture.html>
- Lewis, Michael. 2017. *The Undoing Project*. ; 339-347
- Academic work
- Nobel Prize Committee. December 17, 2002. Foundations of Behavioral and Experimental Economics: Daniel Kahneman and Vernon Smith. https://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2002/advanced-economicsciences2002.pdf
- Nobel Prize Committee. October 19, 2017. Richard H. Thaler: Integrating Economics with Psychology. https://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2017/advanced-economicsciences2017.pdf
- Mullainathan, Sendhil and Richard H. Thaler. 2000. Behavioral Economics. NBER Working Paper 7948.
- Kahneman, Daniel. 2002. Maps of bounded rationality: A perspective on intuitive judgement and choice. Nobel Lecture

17: Budgeting

- Key, V. O. 1940. "The Lack of a Budgeting Theory." *American Political Science Review*, December 34(6): 1137-1141.
- Lewis, Verne B. 1952. "Toward a Theory of Budgeting." *Public Administration Review*, winter 12(1): 42-54.
- Rubin, Irene S. 1990. "Budget Theory and Budget Practice: How Good the Fit." *Public Administration Review* 50(2): 179-189.
- Wildavsky, Aaron. 1992. "'Political Implications of Budget Reform:' A Retrospective." *Public Administration Review*, November/December 52(6): 594-599.
- Kelly, Janet M. 2005. "A Century of Public Budgeting Reform: The 'Key' Question." *Administration and Society*, March 37(1): 89-109.
- White, Joseph. 1998. "Making 'Common Sense' of Federal Budgeting." *Public Administration Review* 58(2): 101-110.