API-102Z
Economic Analysis of Public Policy

Class: Tuesday and Thursday, 10:15am-11:30am, Belfer 400 Land Hall.
Review Session: Friday, 10:15am-11:30am, Room L280.

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The Course

This course builds upon the foundation of API-101Z and develops microeconomic tools of analysis for policy problems using a variety of policy applications. The course is focused broadly on evaluating the rationale for government intervention in the economy and evaluating the efficiency, incentive, and distributional effects of government policies. Areas of application include cost-benefit analysis, taxation, income redistribution, health, education, infrastructure, and trade.

Prerequisites

The course presumes that students have prior preparation in microeconomics, typically API-101Z. This Z section assumes the ability to use calculus.

Requirements

The formal course requirements are: completion of daily problems, one policy memo, a midterm exam, and a final exam. Grades will be based 15% on the daily problems, 10% on the memo, 25% on the midterm, and 50% on the final. Assignments are due at the start of class on the days indicated. Late daily problems are not accepted. Late memos carry a penalty of one-third of a grade per day late. Students may skip two daily problems with no penalty.
Readings

Readings or web links to readings are posted on the course web site.

There is no text book for this course. For students looking for a text book that covers much of the material in this class, *Public Finance* by Harvey S. Rosen and Ted Gayer (McGraw-Hill, 2013) or *Public Finance and Public Policy* by Jonathan Gruber (Worth, 2013) are fine choices.
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<th>Day</th>
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<th>Topic</th>
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<td>T</td>
<td>Jan. 24</td>
<td>Introduction/CB-analysis</td>
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<tr>
<td>Th</td>
<td>Jan. 26</td>
<td>CB Analysis: NPV and Discounting</td>
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<td>T</td>
<td>Jan. 31</td>
<td>CB Analysis: Measuring Costs and Benefits</td>
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<td>Th</td>
<td>Feb. 2</td>
<td>CB Analysis: Distributional and GE Effects</td>
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<td>Feb. 7</td>
<td>Tax Policy: Equity-Efficiency Tradeoffs</td>
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<td>Th</td>
<td>Feb. 9</td>
<td>Tax Policy: Behavioral Responses to Taxation</td>
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<td>F</td>
<td>Feb. 10</td>
<td>Tax Policy: Tax Reform</td>
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<td>T</td>
<td>Feb. 14</td>
<td>Welfare Policy</td>
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<td>Feb. 16</td>
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<td>F</td>
<td>Feb. 17</td>
<td>Memo due (no class)</td>
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<td>Feb. 21</td>
<td>No class</td>
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<td>Th</td>
<td>Feb. 23</td>
<td>Budget Policy</td>
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<td>T</td>
<td>Feb. 28</td>
<td>Catch up / Midterm Review</td>
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<td>Th</td>
<td>Mar. 2</td>
<td>Midterm</td>
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<td>T</td>
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<td>Principal-Agent Theory/ Government Contracting</td>
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<td>Mar. 9</td>
<td>Social Innovation</td>
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**Spring Break**

| T   | Mar. 21| Climate Change/Energy Policy/Infrastructure Policy |
| Th  | Mar. 23| Health Care                                      |
| T   | Mar. 28| Health Care                                      |
| Th  | Mar. 30| Behavioral Economics and Public Policy           |
| T   | Apr. 4 | Education and human capital policy              |
| Th  | Apr. 6 | Immigration Policy                              |
| T   | Apr. 11| Trade Policy                                    |
| Th  | Apr. 13| Trade Policy                                    |

Wed May 3 Final Exam (set by registrar and subject to change)
API-102Z: ECONOMIC ANALYSIS OF PUBLIC POLICY
ASSIGNMENTS

JANUARY 24: INTRODUCTION


JANUARY 26: NET PRESENT VALUE ANALYSIS AND DISCOUNTING


POD#1 due at beginning of class.

JANUARY 31: MEASURING COSTS AND BENEFITS

Averill, “Arsenic in Drinking Water,” Kennedy School of Government Case Program.


POD#2 due at beginning of class.

FEBRUARY 2: INCORPORATING DISTRIBUTIONAL AND GENERAL EQUILIBRIUM EFFECTS


POD#3 due at beginning of class.
FEBRUARY 7: EQUITY-EFFICIENCY TRADEOFFS


POD#4 due at beginning of class.

FEBRUARY 9: BEHAVIORAL RESPONSES TO TAXATION


POD#5 due at beginning of class.

FEBRUARY 10: TAX REFORM


FEBRUARY 14: WELFARE POLICY I


POD#6 due at beginning of class.

FEBRUARY 16: WELFARE POLICY II


POD#7 due at beginning of class.

FEBRUARY 19: NO CLASS (MEMO DUE)

FEBRUARY 21: NO CLASS

FEBRUARY 23: BUDGET POLICY


Optional for a more international perspective:

FEBRUARY 28: MIDTERM REVIEW

MARCH 2: MIDTERM EXAM (IN CLASS)

MARCH 7: APPLICATIONS OF PRINCIPAL-AGENT THEORY TO GOVERNMENT CONTRACTING

Office of Management and Budget, “Increasing Competition and Structuring Contracts for the Best Results,” Memorandum for Chief Acquisition Officers and Senior Procurement Executives, October 27, 2009.

POD#8 due at beginning of class.

MARCH 9: SOCIAL INNOVATION


Ted Miller, Nurse-Family Partnership Home Visitation: Costs, Outcomes, and Return on Investment, January 24, 2013


POD#9 due at beginning of class.
Optional additional reading:
http://govlab.hks.harvard.edu/news


**MARCH 21: GLOBAL CLIMATE CHANGE/ENERGY POLICY/INFRASTRUCTURE POLICY**


POD#10 due at beginning of class.

**MARCH 23: HEALTH POLICY I**


Kaiser Family Foundation, Summary of New Health Reform Law.


POD#11 due at beginning of class.

**MARCH 28: HEALTH POLICY II**


POD#12 due at beginning of class.
MARCH 30: BEHAVIORAL ECONOMICS AND PUBLIC POLICY


POD#13 due at beginning of class.

APRIL 4: EDUCATION AND HUMAN CAPITAL


Optional additional readings:


POD#14 due at beginning of class.

APRIL 6: IMMIGRATION POLICY


POD#15 due at beginning of class.
APRIL 11 and 13: TRADE POLICY


POD#16 due at beginning of class.