

**Business Economics & Public Policy 201/770**  
**Introduction to Business Economics and Public Policy**  
**Fall 2015**

**Instructor.** Katja Seim  
*Department of Business Economics and Public Policy, The Wharton School*  
Office: Steinberg-Dietrich Hall, Room 1457  
Office Hours: Tuesdays, 3:15 – 5pm, and by appointment  
Email: [kseim@wharton.upenn.edu](mailto:kseim@wharton.upenn.edu)

**Teaching Assistant.** Ambar La Forgia  
Office: TBD  
Office Hours: Tuesdays, 11am – 12nn  
Thursdays, 3:15 – 4:15pm  
Email: [ambar@wharton.upenn.edu](mailto:ambar@wharton.upenn.edu)

**Lecture.** Tues/Thur 1:30 – 2:50pm; room TBD

**Course description.** This course examines the role of the government in the economy and its impact on individuals and firms. The aim of the course is to provide an understanding of the reasons for government intervention in the economy, the extent of that intervention, and the response of individuals and firms to the government's actions. A wide variety of topics are covered including but not limited to environmental regulation, antitrust and merger analysis, education, health care, social insurance programs, budget deficits, and the equity and efficiency consequences of taxation of both individuals and firms. To understand how consumer behavior, firm strategy, and public policy interact, the course will rely on a mix of simple but rigorous analytical models and case studies.

**Course Requirements.** There are five sets of requirements for this course:

- **Readings.** The textbook is Jonathan Gruber, *Public Finance and Public Policy*, Fourth Edition. The text will be a useful complement to the lectures, but it is definitely not a substitute. I have placed 3 copies of this book on reserve at Lippincott Library and it is also available for purchase at the Penn bookstore. The detailed outline below notes supplementary readings for lectures not covered in Gruber, as well as select newspaper and other articles.
- **Class participation.** [10%] Q&A, attendance.
- **Problem sets.** [10%] The four problem sets (due 9/17, 10/13, 11/3, and 11/24) account for 10% of your grade. It is ok for you to work together with your fellow students on these problem sets, though each student should hand in his/her own assignment and contribute to the effort.
- **Quizzes.** [30% each] There will be two in-class exams on Thursday, October 15<sup>th</sup>, and on Tuesday, December 8<sup>th</sup>.
- **Class Project.** [20%]

**Quizzes.** The two quizzes are closed-book exams focusing on the economic concepts and applications studied in class, covering both formal problems and applications of course concepts to current policy questions.

*Review Sessions:* The teaching assistant will hold a review session for each of the two quizzes on Tuesday, Oct. 13, from 6 pm to 8 pm and on Thursday, Dec. 3, from 6 pm to 8 pm. The locations will be announced closer to the actual dates.

*Missing an Exam:* Students may miss scheduled examinations only with a University-approved excuse; such valid excuses include direct conflicts with another course offered at Penn that cannot be rescheduled as well as a varsity (but not club) sport competition (but not training). In particular, job interviews are not a legitimate reason to miss an exam. Missing an exam without a University approved excuse will result in a zero for the exam.

*Quiz Re-grades:* To submit a regrade request for an exam, you must submit a written memorandum explaining why you think that the exam should be regraded. This request must be submitted within 5 business days after the graded examination papers have been returned. Your entire exam will then be reviewed, and your grade may go down, go up, or remain unchanged.

**Class Project.** An in-depth class project is an integral learning component of this course. The project topic is your team's choice and should involve application and analysis of the concepts learned in this class to a real-world policy question. The analysis can be qualitative, quantitative, predictive, etc. Email me for feedback on candidate topics.

*Timeline and deliverables:*

- Class 7: Project proposal: list the topic, describe the intended final output, and summarize your research plan and method (max one page).
- Week 14: Project presentation to class, including a Q&A session or other group-led portion involving the rest of the class. Choose a presentation format that you believe best communicates the substantive issues involved (i.e. formal presentation, media press interview, congressional / regulatory hearing enactment, etc.). Presentations that emphasize analytical thinking (by you, firms, policy-makers, etc.) trump factual summaries of the issue.
- Class 28: Written report: an executive summary (5-7 pages) supported by additional materials, incl. your presentation materials.

*Grade:* I will grade each project based on the in-class presentation, the summary write-up, and the PowerPoint presentation. Grades will reflect the relevance of economic concepts used and comparison to relevant cases. Each team will receive a single group grade. Students who fail to participate fully in team presentations will lose credit on their class participation grade.

## Course Schedule and Key Dates

*Disclaimer: The syllabus is tentative. The final version will depend on class size and scheduling.*

Date	Action	Session topic
1 R 8/27		Introduction and course overview
2 T 9/1		Theoretical and empirical tools
3 R 9/3		Externalities
4 T 9/8		Public goods
5 R 9/10		Cost-benefit analysis
6 T 9/15		State and local governments
7 R 9/17	Problem Set 1	Education
8 T 9/22		Social Insurance Programs I: Social security
9 R 9/24		Social Insurance Programs II: Workers comp, unemployment ins
10 T 9/29		Health Insurance I
11 R 10/1	Team proposal	Health Insurance II
12 T 10/6		Income distribution, welfare programs, minimum wage
R 10/8	Fall break	<i>No class</i>
13 T 10/13	Problem Set 2	Antitrust I: Overview, price fixing
14 R 10/15	Quiz 1	<i>Covers materials from lectures 1 through 12</i>
15 T 10/20		Antitrust II: Economics of mergers
16 R 10/22		Consumer Protection I: Information disclosure
17 T 10/27		Consumer Protection II: Regulation of consumer financial products
18 R 10/29		Natural monopoly, networks, and regulated services
19 T 11/3	Problem Set 3	Taxation: Introduction and incidence
20 R 11/5		Tax inefficiency and optimal taxation
21 T 11/10		Taxation of Individuals I: Taxes and labor supply
22 R 11/12		Local tax reform and job growth: the case of Philadelphia
23 T 11/17		Taxation of Individuals II: Taxes, saving and risk-taking
24 R 11/19		Taxing Business Income I: Corporate taxes and investment
25 T 11/24	Problem Set 4	Taxing Business Income II: International taxation, compliance
R 11/26	Thanksgiving	<i>No class</i>
26 T 12/1		Team presentations
27 R 12/3		Team presentations, wrap-up
28 T 12/8	Quiz 2	<i>Covers materials from lectures 1 through 27</i>

## Course Outline

### Lecture 1 (08/27): Introduction and Background

- Why does the government intervene, how should it intervene, and what are the effects?

*Reading:* Gruber Chapter 1

### Lecture 2 (09/01): Theoretical and Empirical Tools

- Quick overview of utility and profit maximization
- Distinguishing correlation and causation

*Reading:* Gruber Chapters 2 and 3

### Lecture 3 (09/03): Externalities

- Examples of externalities: pollution and smoking
- Private sector versus government solutions
- Price vs quantity regulation

*Reading I:* Gruber Chapter 5 and sections 6.1 and 6.3

*Reading II:* The Unbalanced Negative Externalities of Cybersecurity, The Security Ledger, 5/21/15, [Link](#)

### Lecture 4 (09/08): Public Goods

- Example of public goods: transportation networks
- Private versus public provision

*Reading I:* Gruber Chapter 7

*Reading II:* Congress Should Look Beyond the Gas Tax, NYT, 8/1/15, <http://nyti.ms/1Icp7W8>

### Lecture 5 (09/10): Cost-Benefit Analysis

- Estimating costs and benefits of public programs

*Reading:* Gruber Chapter 8

### Lecture 6 (09/15): State and Local Governments

- Which level of government should cover which responsibilities?
- The impact of economic conditions on state and local governments

*Reading:* Gruber Chapter 10

*Reading II:* Report Urges State To Expand METCO, WBUR, 4/1/15, [Link](#), and METCO and Diversity through Bussing, WBUR, 10/9/14, [Link](#)

### Lecture 7 (09/17): Education

- Overview of K-12 education, returns to schooling, effects of school inputs
- Competition

*Reading I:* Gruber Chapter 11

*Reading II:* College for the Masses, NYT, 4/24/2015, <http://nyti.ms/1HzYjzs>

Lecture 8 (09/22): Social Insurance Programs I: Social security

- Overview of social insurance programs
- Rationale and trade-offs with social insurance: protection vs. distortion
- Overview of Social Security and its effect on retirement, poverty, and other outcomes

*Reading I:* Gruber Chapter 12 and 13

*Reading II:* Doing More, Not Less, to Save Retirees From Financial Ruin, NYT, 6/16/15,

<http://nyti.ms/1dIBDSn>

Lecture 9 (09/24): Social Insurance Programs II: Worker's Compensation and Unemployment Insurance

- Insurance and workers' compensation
- Program financing and benefit determination
- Impact on firms and individuals

*Reading I:* Gruber Chapter 14

*Reading II:* Smart Social Programs, NYT, 5/11/15, <http://nyti.ms/1IvVnEm>

Lectures 10 (09/29) and 11 (10/01): Health Insurance

- Background on health insurance coverage and health care spending
- Tax subsidy to health insurance
- Medicare, Medicaid, and other government programs
- Affordable Care Act

*Reading I:* Gruber Chapters 15 and 16

*Reading II* (for 9/29): Colonoscopies Explain Why U.S. Leads the World in Health Expenditures, NYT, 6/1/13, <http://nyti.ms/14ilNSC>

*Reading III* (for 10/1): Kaiser Family Foundation, Summary of the Affordable Care Act, 4/5/2013, [Link](#)  
OR in video form: Robert Wood Johnson Foundation, Understanding the Affordable Care Act, [Link](#)

*Reading IV* (for 10/1): No, Giving More People Health Insurance Doesn't Save Money, NYT, 8/5/15, <http://nyti.ms/1KQFbRf>

Lecture 12 (10/06): Income distribution

- Income distribution and inequality, redistributive programs

*Reading I:* Gruber Chapter 17

*Reading II:* An Atlas of Upward Mobility, NYT, 5/4/2015, <http://nyti.ms/1DYMUI>

*Reading III:* The Minimum Wage Muddle, NYT, 7/24/15, <http://nyti.ms/1MoLo69>

Lecture 13 (10/13): Antitrust I: Introduction, price fixing

- Overview of main areas of competition policy
- Enforcement

*Reading I:* Kovacic, William E., and Carl Shapiro. 2000. "Antitrust Policy: A Century of Economic and Legal Thinking." *Journal of Economic Perspectives*, 14(1): 43-60. [www.jstor.org/stable/2647050](http://www.jstor.org/stable/2647050)

*Reading II:* Abrantes-Metz, Rosa and Patrick Bajari (2009) "Screens for Conspiracies and their Multiple Applications," *Antitrust Magazine* 24(1). [Link](#)

*Reading III:* DOJ looking closer into movie distribution, WSJ, 4/16/2015, <http://on.wsj.com/1hooHTT>

Lecture 14 (10/15): Quiz 1

Lecture 15 (10/20): Antitrust II: Economics of mergers

- Economic rationales for horizontal mergers
- Public policy toward horizontal mergers

*Reading I:* U.S. Department of Justice and the Federal Trade Commission, "Horizontal Merger Guidelines" (2010) <https://www.ftc.gov/sites/default/files/attachments/merger-review/100819hmg.pdf>

*Reading II:* Under Regulators' Scrutiny, Comcast and Time Warner Cable End Deal, NYT, 4/24/2015, <http://nyti.ms/1OknNXb>

Lecture 16 (10/22): Consumer Protection I: Certification markets and information disclosure about product quality

- Use of policies geared at improving consumer information about product quality
- Licensing, and minimum quality standards

*Reading I:* Dranove, David, and Ginger Zhe Jin. 2010. "Quality Disclosure and Certification: Theory and Practice." *Journal of Economic Literature*, 48(4): 935-63. [www.jstor.org/stable/29779704](http://www.jstor.org/stable/29779704)

*Reading II:* F.D.A. to Require Calorie Count, Even for Popcorn at the Movies, NYT, 11/24/2014, <http://nyti.ms/1r1B8OE>

*Reading III:* Paying People to Be Healthy Usually Works, if the Public Can Stomach It, NYT, 7/6/15, <http://nyti.ms/1LNyCh3>

Lecture 17 (10/27): Consumer Protection II: Regulation of Consumer Financial Products

- Guest lecture by Jialan Wang, Economist, Consumer Financial Protection Bureau

*Reading:* Campbell, John Y., Howell E. Jackson, Brigitte C. Madrian, and Peter Tufano. 2011.

"Consumer Financial Protection." *Journal of Economic Perspectives*, 25(1): 91-114.

[www.jstor.org/stable/23049440](http://www.jstor.org/stable/23049440)

Lecture 18 (10/29): Natural monopoly, networks, and regulated services

- Overview of Economic Regulation
- Internet regulation

*Reading I:* Viscusi, Harrington, Vernon, "Economics of Regulation and Antitrust", Chapter 11, pp. 401-425

*Reading II:* Water Pricing in Two Thirsty Cities: In One, Guzzlers Pay More, and Use Less, NYT, 05/06/15, <http://nyti.ms/1Jrq8sN>

*Reading III:* FCC Approves Net Neutrality Rules, Classifying Broadband Internet Service as a Utility, NYT, 2/26/15, <http://nyti.ms/1E0i7M3>

Lecture 19 (11/03): Taxation: Introduction and incidence

- Tax language and concepts
- Incidence
- Equity and fairness

*Reading I:* Gruber Sections 18.1-18.4; Sections 19.1-19.2; 19.4

*Reading II:* The Folly of the Flat Tax, WSJ, 11/14/11, <http://on.wsj.com/1zDcSME>

*Reading III:* Rand Paul and the VAT That Dare Not Speak Its Name, NYT, 6/18/15, <http://nyti.ms/1MQk2Dv>

Lecture 20 (11/05): Tax Inefficiency and Optimal Taxation

- Efficiency and optimal taxation
- Using the tax system to deliver social policies

*Reading I:* Gruber Section 18.5; Chapter 20

*Reading II:* Governor Corbett Approves \$2 Philadelphia School District Cigarette Tax, 9/26/14, The Tax Foundation's Tax Policy Blog, [Link](#)

Lecture 21 (11/10): Taxation of Individuals I: Taxes and labor supply

- Taxation and labor supply
- Taxation and the family

*Reading I:* Gruber Section 18.6, Chapter 21

*Reading II:* An Outdated Tax Penalty for Some Married Couples, WSJ Washington Wire Blog, 4/22/15, [Link](#)

*Reading III:* Tax Day: Are You Receiving a Marriage Penalty or Bonus?, NYT 4/15/15, <http://nyti.ms/1D0V6mn>

Lecture 22 (11/12): Local tax reform and job growth: the case of Philadelphia

- Guest lecture by Paul Levy, President and CEO, Center City District

*Reading:* Inman, Robert. 2009. "Financing City Services." Chapter 11 in *Making Cities Work: Prospects and Policies for Urban America*. Edited by Robert Inman.

Lecture 23 (11/17): Taxation of Individuals II: Taxes, saving, and risk-taking

- Effect of taxes on household saving and wealth
- Other issues in taxation in brief: tax evasion and enforcement; tax complexity and salience

*Reading I:* Gruber Sections 22.2-22.4 and 23

*Reading II:* Make Me a Match: Fidelity to Match Some IRA Contributions, NYT, 2/26/15, <http://nyti.ms/1PabY1I>

Lecture 24 (11/19): Taxing Business Income I: Corporate taxes and investment

- Corporate tax overview and incidence
- Impact of business taxes on firm decisions

*Reading I:* Gruber Chapter 24

*Reading II:* Cutting the Corporate Tax Would Make Other Problems Grow, NYT, 8/25/14, <http://nyti.ms/1pxA5h5>

Lecture 25 (11/24): Taxing Business Income II: International taxation and compliance

- International aspects of corporate taxation
- Corporate tax compliance

*Reading I:* Gruber Chapter 24

*Reading II:* Desai, Mihir. 2005. "The Degradation of Reported Corporate Profits." *Journal of Economic Perspectives* 19(4): 171-192. [www.jstor.org/stable/4134961](http://www.jstor.org/stable/4134961).

*Reading III:* Are Corporate Taxes Headed the Way of Prohibition?, Harvard Business Review 7/30/14, [Link](#).

Lecture 26 (12/01), Lecture 27 (12/03): Team presentations

Lecture 28 (12/08): Quiz 2