

Business Economics & Public Policy 201/770
Introduction to Business Economics and Public Policy
Spring 2016

Instructor. Katja Seim
Department of Business Economics and Public Policy, The Wharton School

Office: Steinberg-Dietrich Hall, Room 1457
Office Hours: Mondays, 3:15 – 5pm, and by appointment
Email: kseim@wharton.upenn.edu

Teaching Assistant. Karen Zhang
Office: TBA
Office Hours: Mondays, 3:15 – 4:15pm
Wednesdays, 12:15 – 1:15pm
Email: hongyuzh@wharton.upenn.edu

Lecture. Mon/Wed 1:30 – 2:50pm; JMHH F45

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.

As a microeconomics reference, I recommend MIT's OCW Principles of Microeconomics course, available [here](#). The units relevant for the class are 1, 2, 4 (chapters on Individual and market consumer surplus, producer surplus, and social welfare), 5 (monopoly I and chapters on game theory & the prisoner's dilemma and repeated games).

- **Class participation.** [10%] Q&A, attendance. More than five unexcused absences result in an automatic failing grade.
- **Problem sets.** [10%] The four problem sets (due 2/8, 2/29, 4/4, and 4/25) 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 Wednesday, March 2nd, and on Wednesday, April 27th.
- **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 Monday, February 29th, from 6 pm to 8 pm and on Monday, April 25th, 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 completed regrade form (posted to Canvas) 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. Sample projects from prior years have been posted to Canvas. The analysis can be qualitative, quantitative, predictive, etc. Email me for feedback on candidate topics.

Timeline and deliverables:

- Class 11: 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.
- May 6th: Written report (max 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	Wed 01-13		Introduction and background
	Mon 01-18		<i>No class</i>
2	Wed 01-20		Theoretical tools
3	Mon 01-25		Externalities
4	Wed 01-27		Public goods
5	Mon 02-01		State and local governments
6	Wed 02-03		Social Insurance Programs I: Overview
7	Mon 02-08	Problem Set 1	Social Insurance Programs II: Social Security
8	Wed 02-10		Social Insurance Programs III: UI
9	Mon 02-15		Health Insurance I
10	Wed 02-17		Health Insurance II
11	Mon 02-22	Team Proposal	<i>Guest speaker: Financing Transportation Networks</i>
12	Wed 02-24		Education I
13	Mon 02-29	Problem Set 2	Education II
14	Wed 03-02	Quiz 1	Covers materials from lectures 1 through 12
	Mon 03-07		<i>No class</i>
	Wed 03-09		<i>No class</i>
15	Mon 03-14		Antitrust I: Overview, price fixing
16	Wed 03-16		Antitrust II: Economics of mergers
17	Mon 03-21		Regulated services and networks
18	Wed 03-23		Consumer Protection I: Information disclosure
19	Mon 03-28		Consumer Protection II: Financial products
20	Wed 03-30		Introduction to Taxation and Tax Incidence
21	Mon 04-04	Problem Set 3	Corporate taxes and investment
22	Wed 04-06		<i>Guest speaker: Current Issues in Tax Policy</i>
23	Mon 04-11		Taxation of Individuals I: Taxes and labor supply
24	Wed 04-13		Taxation of Individuals II: Taxes, saving and risk-taking
25	Mon 04-18		Tax Inefficiencies
26	Wed 04-20		Team presentations
27	Mon 04-25	Problem Set 4	Team presentations, wrap-up
28	Wed 04-27	Quiz 2	Covers materials from lectures 13 through 27
	Fri 05-06	Project Report	

Course Outline

Lecture 1 (01/03): Introduction and Background

- Why does the government intervene, how should it intervene, and what are the effects?
- Empirical Tools: Distinguishing correlation and causation

Reading: Gruber Chapter 1; 3

Lecture 2 (01/20): Theoretical Tools

- Quick overview of utility and profit maximization

Reading: Gruber Chapters 2

Lecture 3 (01/25): 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: Don't Want Me to Recline My Airline Seat? You Can Pay Me, NYT, 8/27/14,

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

Lecture 4 (01/27): 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 (02/01): 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 6 (02/03): Social Insurance Programs I: Overview

- Overview of social insurance programs
- Rationale and trade-offs with social insurance: protection vs. distortion

Reading I: Gruber Chapter 12

Reading II: Iraq Veteran, Now a West Point Professor, Seeks to Rein In Disability Pay, NYT, 1/7/2015,

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

Lecture 7 (02/08): Social Insurance Programs II: Social Security

- Overview of Social Security and its effect on retirement, poverty, and other outcomes
- Assessing effect on retirement, poverty, and other outcomes
- Options for social security reforms

Reading I: Gruber Chapter 13

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

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

Lecture 8 (02/10): Social Insurance Programs III: Unemployment Insurance

- Program financing and benefit determination
- Impact on firms and individuals

Reading I: Gruber Chapter 14

Reading II: The Vanishing Male Worker: How America Fell Behind, NYT, 12/11/15,

<http://nyti.ms/1urjh9l>

Lectures 9 (02/15): Health Insurance I

- 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 02/15): Colonoscopies Explain Why U.S. Leads the World in Health Expenditures,

NYT, 6/1/13, <http://nyti.ms/14iINSC>

Lectures 10 (02/17): Health Insurance II

Reading I: Gruber Chapters 15 and 16

Reading II (for 02/17): 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 III (for 02/17): No, Giving More People Health Insurance Doesn't Save Money, NYT, 8/5/15,

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

Lecture 11 (02/22): Public Goods in Action: Financing Transportation Networks

- Guest lecture by Linda Spock, President, Spock Solutions

Reading: TBD

Lecture 12 (02/24): Education I

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

Reading I: Gruber Chapter 11

Reading II: How Game Theory Helped Improve New York City's High School Application Process,

NYT, 12/5/2014, <http://nyti.ms/1G0CZ3T>

Reading III: President Obama Signs Into Law a Rewrite of No Child Left Behind, NYT, 12/10/2015,

<http://nyti.ms/1Z2nKkA>

Lecture 13 (02/29): Education II

- Overview of higher education, state subsidies and grants, subsidized loans

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

Reading II: Lance Lochner and Alexander Monge-Naranjo, 2015, "Student Loans and Repayment: Theory, Evidence and Policy", NBER working paper 20849, Sections 1-5, available at

<http://www.nber.org/papers/w20849.pdf>.

Lecture 14 (03/02): Quiz 1

Lecture 15 (03/14): Antitrust I: Overview, 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

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 16 (03/16): 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: Choose one of:

- Walgreens to Buy Rite Aid for \$9.4 Billion, *NYT*, 10/27/15, <http://nyti.ms/1kNjGGa>
- Merger of Dow, DuPont Likely to Get Close Antitrust Scrutiny, *WSJ*, 12/9/2015, <http://on.wsj.com/1ZeC6yk>
- Under Regulators' Scrutiny, Comcast and Time Warner Cable End Deal, *NYT*, 4/24/2015, <http://nyti.ms/1OknNXb>

Consider: (1) which product market does each company compete in?; (2) what is the relevant geographic market (i.e., as a buyer of the company's products in a given location, what determines which competitors you would choose among)? (3) where [in terms of either (1) or (2)] do the firms compete directly?

Lecture 17 (03/21): Regulated services and networks

- Overview of Economic Regulation
- Case studies: Internet regulation; IP regulation

Reading I (Background): 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 18 (03/23): Consumer Protection I: Information disclosure

- 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

Reading II: F.D.A. to Require Calorie Count, Even for Popcorn at the Movies, *NYT*, 11/24/2014, <http://nyti.ms/1rlB8OE>

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

Lecture 19 (03/28): Consumer Protection II: Regulation of Consumer Financial Products

- Motivation behind consumer protection in the context of financial products, e.g., credit cards
- Overview of regulations and outcomes

Reading I: 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

Reading II: Card Act Cleared Up Credit Cards' Hidden Costs, NYT, 11/7/13, <http://nyti.ms/1AKvVrF>

Lecture 20 (03/30): Introduction to Taxation and Tax Incidence

- Tax language and concepts
- Who bears the burden of taxes, in theory and in practice?

Reading I: Gruber Sections 18.1-18.2; 19.1-19.2; 19.4

Reading II: Sam Adams about to be kicked out of 'craft beer' category, Market Watch, 6/26/15, [Link](#).

Lecture 21 (04/04): Taxing Business Income: Corporate taxes and investment

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

Reading I: Gruber Chapter 24

Reading II: Pfizer Didn't Need an Inversion to Avoid Paying U.S. Taxes, NYT, 11/25/15,

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

Lecture 22 (04/06): Current policy issues in Taxation

- Guest lecture by Karl Russo, Economist, Joint Committee on Taxation

Reading: TBD

Lecture 23 (04/11): 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: Tax Day: Are You Receiving a Marriage Penalty or Bonus?, NYT 4/15/15,

<http://nyti.ms/1D0V6mn>

Lecture 24 (04/13): Taxation of Individuals II: Taxes, saving, and risk-taking

- Effect of taxes on household saving, in particular for retirement, and wealth
- Capital gains taxation

Reading I: Gruber Sections 22.2-22.4 and 23

Reading II: Fidelity Matches Some IRA Contributions, Huffington Post, 3/2/15, [Link](#).

Lecture 25 (04/18): Tax Inefficiency and Optimal Taxation

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

Reading I: Gruber Section 18.5; Chapter 20.1

Reading II: The Inevitable, Indispensable Property Tax, NYT, 7/4/15, <http://nyti.ms/1IAMCtM>

Lecture 26 (04/20), Lecture 27 (04/25): Team presentations

Lecture 28 (04/27): Quiz 2