

Business Economics and Public Policy 201/770
Introduction to Business Economics and Public Policy
Fall 2016

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Office: Steinberg-Dietrich Hall, Room 3006

Hours: Tuesday and Thursday: 3:15 – 4:15 pm and by appointment

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Lecture: TR 1:30 – 3:00 pm, SHDH 215

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Overview of the Course

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.

Course requirements

Readings: The textbook is *Public Finance and Public Policy*, fifth edition by Jonathan Gruber. It can be purchased at the Penn bookstore and there are three copies on reserve at Lippincott Library. The detailed outline below notes supplementary readings for lecture topics not addressed in the textbook, as well as select newspaper and other articles; all readings on the syllabus are required.

Class participation: [10%] It is important that you come to class prepared to participate; doing the readings is not a substitute for attending and participating in class. I will sometimes ask you to bring articles to class (from newspapers, blog posts, and other media) for discussion.

Midterms: [30% each] There will be two in-class, closed book midterm exams. The midterms will be given on Tuesday October 18 and Thursday December 8.

Review sessions: The teaching assistants will hold a review session for each of the two midterm exams; the review for the first midterm will be on Monday October 17 and for the second midterm on Wednesday December 7; both will be held in the evening at locations to be announced.

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 or a varsity (but not club) sport competition (but not practice). 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.

Midterm 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 has been returned. Your entire exam will then be reviewed, and your grade may go down, go up, or remain unchanged.

Problem sets: [10%] The four problem sets (due September 20, October 13, November 10, and December 6) account for a collective total of 10% of your grade (i.e., 2.5% for each problem set). I encourage you to work together with classmates on the problem sets, although you must hand in your own problem set. We may review some problems in class and each student should be prepared to answer any problem.

Class project: [20%] Each student will be a member of a class project team; the number of students per team will depend on total class enrollment. Teams have flexibility in the choice of a topic for the project but all topics should involve the application and analysis of the concepts addressed in this class to a real-world policy question. I am happy to provide feedback on potential topics and analytical approaches (which can be quantitative, qualitative or a combination); please email me your ideas or come talk to me during my office hours if you would like feedback.

Class project steps and due dates:

October 4: Project proposal (maximum length 1 page): list the topic, summarize your research plan and method, and describe the intended output.

December 1 and December 6: Project presentation to class. Each group should choose a presentation format that you best communicates the substantive issues and your analysis of these issues. For example, you might model your presentation as a congressional testimony, an academic conference paper, or a news show debate.

December 15: Submit written report (maximum length 7 pages) supported by additional materials, including your class presentation.

Class Project Grade: I will grade each project based on the in-class presentation, the summary write-up, and the presentation slides. Grades will reflect the clarity and relevance of the economic concepts used and the quality of the analysis embodied in the project. 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 Overview and Deadlines

Lecture	Date	Topic
1	August 30	Introduction and background
2	September 1	Theoretical tools
3	September 6	Externalities
4	September 8	Public goods
5	September 13	State and local governments
6	September 15	Social Insurance I: Overview
7	September 20	Social Insurance II: Social Security Problem set 1
8	September 22	Social Insurance III: Unemployment insurance
9	September 27	Health Insurance
10	September 29	Health Insurance
11	October 4	Wrap-up and Review Lectures 1 – 10 Class project proposal due
	October 6	No class/fall break
12	October 11	Education I
13	October 13	Education II Problem set 2
14	October 18	Midterm 1
15	October 20	Antitrust I: overview, price fixing
16	October 25	Antitrust II: economics of mergers
17	October 27	Regulated services and networks
18	November 1	Consumer protection I: information disclosure
19	November 3	Consumer protection II: financial products
20	November 8	Introduction to taxation and tax incidence
21	November 10	Corporate taxes and investment Problem Set 3
22	November 15	Wrap-up and review lectures 11 – 21
23	November 17	Taxation of individuals I: labor supply
24	November 22	Taxation of individuals II: taxes, saving and risk-taking
	November 24	No class/Thanksgiving
25	November 29	Tax inefficiencies and optimal taxation
26	December 1	Team presentations
27	December 6	Team presentations Problem set 4
28	December 8	Midterm 2

Class project written report due December 15, 2016

Course Outline

Lecture 1 (08/30): 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 Chapters 1, 3

Lecture 2 (09/01): Theoretical Tools

Overview of utility and profit maximization

Reading: Gruber Chapter 2

Lecture 3 (09/06): Externalities

Examples of externalities

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 (09/08): Public Goods

Example of public goods

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 (09/13): 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

Lecture 6 (09/15): Social Insurance Programs I: Overview

Overview of social insurance programs

Rationale and tradeoffs 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 (09/20): Social Insurance Programs II: Social Security

Overview of Social Security

Assessing effect on retirement, poverty, and other outcomes

Reform options

Problem Set 1 due

Reading I: Gruber Chapter 13

Reading II: “Calls for Social Security Expansion Grow Louder in Washington,” *NYT*, 7/15/16, <http://nyti.ms/29JFiAw>

Lecture 8 (09/22): 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 (09/27): Health Insurance I

Background on health economics and spending

Private health insurance

Reading I: Gruber Chapter 15

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

Lectures 10 (09/29): Health Insurance II

Medicare and Medicaid

Health care reform

Reading I: Gruber Chapter 16

Reading II: Kaiser Family Foundation, Summary of the Affordable Care Act, 4/5/2013, [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 (10/04): Wrap-up and review of Lectures 1- 10

Reading I: No new reading

Class project proposal due

Lecture 12 (10/11): Education I

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

Early childhood education

Competition

Reading I: Gruber Chapter 11

Reading II: President Obama Signs Into Law a Rewrite of No Child Left Behind, *NYT*, 12/10/2015, <http://nyti.ms/1Z2nKkA>

Lecture 13 (10/13): 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: Li, Wenli, “The Economics of Student Loan Borrowing and Repayment,” *Philadelphia Fed Business Review*, Q3, 2013,

[LINK](#)

Problem Set 2 due

Lecture 14 (10/18): Midterm 1

Lecture 15 (10/20): 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. [LINK](#)

Reading II: “US Proposes Solutions for Apples E-Book Price-Fixing,” *NYT*, 8/2/13, <http://nyti.ms/1dG2smX>

Reading III: Vara, Vauhini, “Did Apple Fix E-Book Prices for the Greater Good?” *The New Yorker*, December 16, 2014. [LINK](#)

Lecture 16 (10/25): 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) [LINK](#)

Reading II: US Sues to Block Anthem-Cigna and Aetna-Humana Mergers, *NYT*, 07/21/16, <http://nyti.ms/29Yot4W>

Reading III: The Regulatory Hurdles to Health Insurance Mergers, *NYT*, 7/24/16, <http://nyti.ms/1JDMeH1>

Lecture 17 (10/27): Regulated services and networks

Overview of Economic Regulation

Regulation case studies

Reading I: “Has Economic Analysis Improved Regulatory Decisions?,” *Journal of Economic Perspectives*, 22(1) Winter 2008, 67-84 (read pages 67-71), [LINK](#)

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 (11/01): 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): 935-963.

[LINK](#)

Reading II: “FDA’s Menu Labeling Rule,” Health Policy Brief, *Health Affairs*, July 13, 2015, [LINK](#)

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 (11/03): Consumer Protection II: Regulation of Consumer Financial Products

Motivation behind consumer protection in the context of financial products

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. [LINK](#)

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

Lecture 20 (11/08): Introduction to Taxation and Tax Incidence

Tax language and concepts

Who bears the burden of taxes, in theory and in practice?

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

Lecture 21 (11/10): 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>.

Problem Set 3 due

Lecture 22 (11/15): Wrap-up and review Lectures 12-21

Reading: No new reading

Lecture 23 (11/17): 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 (11/22): 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

Lecture 25 (11/29): 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 (12/01): Team presentations

Lecture 27 (12/06): Team presentations

Lecture 28 (12/08): Midterm II

Class project written report due December 15, 2016