

**Business Economics & Public Policy 201/770**  
**Introduction to Business Economics and Public Policy**  
**Spring 2018**

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**Lecture.** Tues/Thur 12 noon – 1:20pm, JMHH 240

**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 in the current policy debate are covered, including but not limited to, upward mobility and equity, health care, social insurance programs, environmental regulation, antitrust and merger analysis, and the 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, empirical evidence, and case studies.

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

- **Readings.** The textbook for a subset of the lectures is Gruber, J., *Public Finance and Public Policy*, 5th Edition, New York: Worth Publishers, 2016 (earlier editions are fine). 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).

For students who are new to the microeconomics materials from classes 1 and 2, Rachel will hold a recitation meeting on Friday, January 19th from 9-10:30am, SHDH 1201 to review the theoretical tools.

- **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. More than five unexcused absences result in an automatic failing grade.
- **Problem sets.** [10%] The four problem sets (due 2/1, 2/20, 3/27, and 4/12) 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.

- **Quizzes.** [30% each] There will be two in-class exams on Thursday, February 22<sup>nd</sup>, and on Tuesday, April 24<sup>th</sup>. These 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:* Rachel will hold a review session for each of the two quizzes on Tuesday, February 20<sup>th</sup> from 6-8pm in SHDH 213 and on Sunday, April 22<sup>nd</sup>, from 1-3 pm, in JMHH G50.

*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. I will then review your entire exam, and your grade may go down, go up, or remain unchanged.

- **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 have posted sample projects from prior years to Canvas. 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.

*Timeline and deliverables:*

- Class 15: Project proposal: list the topic, describe the intended final output, and summarize your research plan and method (max one page).
- Classes 26/27: Project presentation to class, including a Q&A session or other group-led portion involving the rest of the class. Each group should choose a presentation format that you believe best communicates the substantive issues involved. For example, you might model your presentation as a congressional testimony, an academic conference paper, or a news show debate.
- May 8<sup>th</sup>: 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.*

	<b>Date</b>	<b>Action</b>	<b>Session topic</b>
1	Thu 01-11		Introduction and background
2	Tue 01-16		Theoretical tools
3	Thu 01-18		Externalities I
4	Tue 01-23		Externalities II
5	Thu 01-25		Income distribution & Upward Mobility
6	Tue 01-30		Education I: K-12 education
7	Thu 02-01	Problem Set 1	Education II: Higher education
8	Tue 02-06		Social Insurance Programs I: Overview
9	Thu 02-08		Social Insurance Programs II: Social Security
10	Tue 02-13		Health Insurance I
11	Thu 02-15		Health Insurance II
12	Tue 02-20	Problem Set 2	<i>Wrap up and Review, Lectures 1-11</i>
13	Thu 02-22	Quiz 1	Covers materials from lectures 1 through 11
14	Tue 02-27		Antitrust I: Overview, price fixing
15	Thu 03-01	Team Proposal	Antitrust II: Economics of mergers
	Tue 03-06		<i>Spring Break - no class</i>
	Thu 03-08		<i>Spring Break - no class</i>
16	Tue 03-13		Communications Markets I: Platform Markets
17	Thu 03-15		Communications Markets II: Net Neutrality
18	Tue 03-20		Consumer Protection I: Information disclosure
19	Thu 03-22		Consumer Protection II: Financial products
20	Tue 03-27	Problem Set 3	Introduction to Taxation and Tax Incidence
21	Thu 03-29		Tax incidence, Efficiency, and Optimal Taxation
22	Tue 04-03		Taxation of Individuals I: Taxes and labor supply
23	Thu 04-05		Taxation of Individuals II: Taxes, saving and risk-taking
24	Tue 04-10		Corporate taxes and investment
25	Thu 04-12	Problem Set 4	<i>Wrap up and Review, Lectures 14-24</i>
26	Tue 04-17		Team presentations
27	Thu 04-19		Team presentations
28	Tue 04-24	Quiz 2	Covers materials from lectures 14 through 24

Class project written report due May 8, 2018.

## Course Outline

### Lecture 1 (01/11): 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 (01/16): Theoretical Tools

- Quick overview of utility and profit maximization

*Reading:* Gruber Chapters 2

### Lectures 3 and 4 (01/18, 01/23): 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>

*Reading III:* It's not just opioid addiction. Alcoholism may be on the rise too, Vox, 8/10/17,

<https://www.vox.com/policy-and-politics/2017/8/10/16124938/study-alcoholism-addiction-epidemic>

### Lecture 5 (01/25): Income distribution and Policies to Improve Upward Mobility

- Income distribution and inequality
- Determinants of intergenerational income mobility

*Reading I:* Gruber Chapter 17

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

*Reading III:* Economists argue about minimum wages, Economist, 7/8/2017,

<https://www.economist.com/node/21724802>

### Lecture 6 (01/30): Education I: K-12 education

- Education and mobility, returns to schooling, effects of school inputs
- Market-based solutions to improving outcomes

*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:* Looking Back On 50 Years Of Busing In Boston, NPR, 10/5/2016,

<http://www.npr.org/sections/ed/2016/10/05/495504360/looking-back-on-50-years-of-busing-in-boston>

### Lecture 7 (02/01): Education II: Higher education

- Overview of higher education
- Determinants of access to higher education

*Reading I:* Gruber Chapter 11.5

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

*Reading III:* Raj Chetty, John N. Friedman, Emmanuel Saez, Nicholas Turner, and Danny Yagan, 2017, "Mobility Report Cards: The Role of Colleges in Intergenerational Mobility," non-technical summary report, [http://www.equality-of-opportunity.org/assets/documents/coll\\_mrc\\_summary.pdf](http://www.equality-of-opportunity.org/assets/documents/coll_mrc_summary.pdf).

Lectures 8 and 9 (02/06, 02/08): Social Insurance Programs I & II: Social Security

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

*Reading I:* Gruber Chapter 12; 13

*Reading II:* Iraq Veteran, Now a West Point Professor, Seeks to Rein In Disability Pay, NYT, 1/7/2015, <http://nyti.ms/1xHesiC>

Lectures 10 and 11 (02/13, 02/15): 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:* Colonoscopies Explain Why U.S. Leads the World in Health Expenditures, NYT, 6/1/13, <http://nyti.ms/14ilNSC>

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

Lecture 12 (02/20): Wrap up and Review, Lectures 1-11

Lecture 13 (02/22): Quiz 1

Lecture 14 (02/27): 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](http://www.jstor.org/stable/2647050)

*Reading II:* Vara, Vauhini, "Did Apple Fix E-Book Prices for the Greater Good?" *The New Yorker*, 12/16/ 2014, <http://www.newyorker.com/business/currency/apple-claiming-virtue-e-book-price-fixing-case>

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

Lecture 15 (03/01): 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:*

- US Sues to Block Anthem-Cigna and Aetna-Humana Mergers, NYT, 07/21/16, <http://nyti.ms/29Yot4W>
- The Regulatory Hurdles to Health Insurance Mergers, NYT, 7/24/16, <http://nyti.ms/1JDMeH1>
- Justice Department Sues to Block AT&T-Time Warner Merger, NYT, 11/20/17, <https://nyti.ms/2hP3Y1z>

In reading the above, 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 16 (03/13): Communications Markets I

- Regulation in Communications Markets
- The economics of two-sided markets

*Reading I:* Rysman, Marc. 2009. "The Economics of Two-Sided Markets." *Journal of Economic Perspectives*, 23(3): 125-43. <https://www.jstor.org/stable/27740544>

*Reading II:* Taxi Medallions, Once a Safe Investment, Now Drag Owners Into Debt, NYT, 9/10/17, <https://nyti.ms/2xUWtZe>

Lectures 17 (03/15): Communications Markets II

- Net neutrality regulations

*Reading I:* Greenstein, Shane, Martin Peitz, and Tommaso Valletti. 2016. "Net Neutrality: A Fast Lane to Understanding the Trade-Offs." *Journal of Economic Perspectives*, 30(2): 127-50.

<https://www.jstor.org/stable/43783710>

*Reading II:* F.C.C. Plans Net Neutrality Repeal in a Victory for Telecoms, NYT, 11/20/17, <https://nyti.ms/2hS2112>

Lecture 18 (03/20): 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](http://www.jstor.org/stable/29779704)

*Reading II:* "FDA's Menu Labeling Rule," Health Policy Brief, Health Affairs, July 13, 2015, [http://www.healthaffairs.org/healthpolicybriefs/brief.php?brief\\_id=140](http://www.healthaffairs.org/healthpolicybriefs/brief.php?brief_id=140)

*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 (03/22): 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: the case of credit cards & student loans

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

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

*Reading III:* L. Lochner & A. Monge-Naranjo, 2015, "Student Loans and Repayment: Theory, Evidence and Policy", NBER 20849, Sects 1-5, available at <http://www.nber.org/papers/w20849.pdf>.

Lecture 20 (03/27): Introduction to Taxation and Tax Incidence

- Tax language and concepts

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

Lecture 21 (03/29): Efficiency Costs of Taxation and Optimal Taxation

- Who bears the burden of different taxes?
- Efficiency and optimal taxation
- Using the tax system to deliver social policies

*Reading I:* Gruber Section 18.5; 19.1-19.2; 19.4; 20.1

*Reading II:* How Low Can Taxes Go? Outside Washington, Republicans Find Limits, NYT, 7/2/17, <https://nyti.ms/2tBmIEY>

Lecture 22 (04/03): 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>

*Reading III:* Supply-Side Economics, but for Liberals, NYT 4/15/2017, <https://nyti.ms/2oKhX9F>

Lecture 23 (04/05): Taxation of Individuals II: Taxes, saving, and risk-taking

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

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

*Reading II:* Chye-Ching Huang and Chloe Cho, Ten Facts You Should Know About the Federal Estate Tax, Center on Budget and Policy Priorities, 10/30/17, available at <https://www.cbpp.org/sites/default/files/atoms/files/1-8-15tax.pdf>

Lecture 24 (04/10): 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:* The Major Potential Impact of a Corporate Tax Overhaul, NYT, 1/7/17, <https://nyti.ms/2jAgUqz>

*Reading III:* Tax Cuts for Small-Business Owners? It's Complicated, NYT, 11/17/17, <https://nyti.ms/2jAIBp6>

Lecture 25 (04/12): Wrap up and Review, Lectures 14-24

Lecture 26 (04/17), Lecture 27 (04/19): Team presentations

Lecture 28 (04/24): Quiz 2