

40993 – POLICY PROCESS
Bocconi University
A.Y. 2022-2023

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Course description

This course provides a survey of the field of public economics. The course covers several of the most important public policy questions modern governments face, including tax policy, transfer policy, social insurance, pensions and minimum wages. The course material will be motivated by current policy questions, and then discuss important empirical and theoretical insights on that question from the economics literature. At the end of the course, the participants will have a clearer understanding of the economic insights on key policy questions, as well as an understanding of the methodologies used to produce these insights.

Course structure

The course is structured in four modules:

- Part I: Social insurance
- Part II: Taxes and transfers
- Part III: Social economics
- Part IV: Topics in policy analysis

Each week will feature (1) a lecture and (2) the presentation and discussion of at least one paper. The lecture will cover key concepts from theoretical and empirical work in public economics. Each week, one or more papers will be selected for discussion. All students should read the paper in advance and prepare for the discussion. Each week one or more students should prepare an in-depth presentation of the paper that will be used to lead the discussion. In-class presentations and discussions are propaedeutic to the final assessment.

Lecture topics and readings (list may be subject to change)

Part I. Social insurance

Introduction to social insurance

- [1] Chetty, R. and A. Finkelstein (2013). "Social Insurance: Connecting Theory to Data." Chapter 3 in *Handbook of Public Economics*, Vol 5.

Unemployment insurance

- [2] Chetty R. (2009). "Sufficient Statistics for Welfare Analysis: A Bridge Between Structural and Reduced-Form Methods." *Annual Review of Economics* 1, 451-488.
- [3] Gruber, J. (1997). "The Consumption Smoothing Benefits of Unemployment Insurance." *American Economic Review* 87, 192-205.
- [4] Meyer, B. (1990) "Unemployment Insurance and Unemployment Spells." *Econometrica* 58, 757-782.
- [5] Kolsrud, J., C. Landais, P. Nilsson, and J. Spinnewijn (2018). "The Optimal Timing of Unemployment Benefits: Theory and Evidence from Sweden." *American Economic Review*, 108 (4-5): 985-1033.
- [6] Krueger, A. and A. Mueller (2010). "Job search and unemployment insurance: New evidence from time use data." *Journal of Public Economics* 94, 298-307.
- [7] Schmieder, J., T. Von Wachter, and S. Bender (2012). "The Effects of Extended Unemployment Insurance Over the Business Cycle: Regression Discontinuity Estimates over 20 years." *Quarterly Journal of Economics* 127(2), 701-752.

Social security

- [8] Banks, J., R. Blundell, and S. Tanner (1998). "Is There a Retirement-Savings Puzzle?" *American Economic Review* 88(4), 769-788.
- [9] Gruber, J. (2019). Chapter 13. *Public Finance and Public Policy*. Worth Publishers, New York.
- [10] Gruber, J. and D. Wise (1999), "Social Security Programs and Retirement Around the World: Introduction and Summary." in Jonathan Gruber and David Wise, eds., *Social Security and Retirement Around the World* (Chicago: University of Chicago Press), p. 1-36.

- [11] Chetty, R., Friedman, J., Leth-Petersen, S., Nielsen, T. and T. Olsen (2014). "Active vs. Passive Decisions and Crowd-out in Retirement Savings Accounts: Evidence from Denmark." *Quarterly Journal of Economics* 129(3): 1141-1219.

Part II. Tax and transfers

Labor supply responses to tax and transfers

- [12] Blundell, R. and T. MaCurdy (1999). "Labor Supply: A Review of Alternative Approaches." in O. Ashenfelter and D. Card (eds.), *Handbook of Labor Economics* vol. 3A, Elsevier, Amsterdam.
- [13] Chetty, R., J. Friedman, T. Olsen, and L. Pistaferri (2011). "Adjustment Costs, Firm Responses, and Micro vs. Macro Labor Supply Elasticities: Evidence from Danish Tax Records." *Quarterly Journal of Economics* 126, 749-804.
- [14] Chetty, R., J. Friedman, and E. Saez (2013). "Using Differences in Knowledge Across Neighborhoods to Uncover the Impacts of the EITC on Earnings." *American Economic Review* 103, 2683-2721.
- [15] Eissa, N. (1995). "Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment." NBER Working Paper No. 5023.
- [16] Eissa, N. and J. Liebman (1996). "Labor Supply Response to the Earned Income Tax Credit." *Quarterly Journal of Economics* 111, 605-37.
- [17] Saez, E. (2010). "Do Taxpayers Bunch at Kink Points?" *American Economic Journal: Economic Policy* 2, 180-212.

Taxable income responses

- [18] Feldstein, M. (1995). "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act." *Journal of Political Economy* 103, 551-572.
- [19] Gruber, J. and E. Saez (2002). "The Elasticity of Taxable Income: Evidence and Implications." *Journal of Public Economics* 84, 1-32.
- [20] Kleven, H. and E. Schultz (2014). "Estimating Taxable Income Responses Using Danish Tax Reforms." *American Economic Journal: Economic Policy* 6(4), 271-301.
- [21] Saez, E., J. Slemrod, and S. H. Giertz (2012). "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review." *Journal of Economic Literature* 50 (1), 3-50.

Part III. Preferences for redistribution

- [22] Alesina, A. and P. Giuliano (2011). "Preferences for Redistribution." In *Handbook of Social Economics*, edited by J. Benhabib, A. Bisin, and M. O. Jackson, 93–131. North Holland: Elsevier.
- [23] Alesina, A., A. Miano, and S. Stantcheva (forthcoming). "Immigration and Redistribution." *Review of Economic Studies*.
- [24] Alesina, A., S. Stantcheva, and E. Teso (2018). "Intergenerational Mobility and Preferences for Redistribution." *American Economic Review* 108 (2), 521–554.
- [25] Kreiner, C. T., K. B. Hvidberg, and S. Stantcheva (2015). "How Elastic Are Preferences for Redistribution? Evidence from Randomized Survey Experiments." *American Economic Review* 105 (4): 1478–1508.
- [26] Kuziemko, I., M. I. Norton, E. Saez, and S. Stantcheva (2021). "Social Positions and Fairness Views on Inequality." NBER Working Paper No. 28099.
- [27] Stantcheva, S. (2021). "Understanding Tax Policy: How do people Reason?" *Quarterly Journal of Economics* 136(4): 2309–2369.

Part IV. Topics in policy analysis

Low-income support: tax credits and minimum wages

- [28] Harasztosi, P., and A. Lindner (2019). "Who Pays for the Minimum Wage?" *American Economic Review*, 109 (8), 2693-2727.
- [29] Kleven, H. (2021). "The EITC and the Extensive Margin: A Reappraisal." NBER Working Paper No. 26405.
- [30] Lee, D. and E. Saez (2012). "Optimal Minimum Wage Policy in Competitive Labor Markets." *Journal of Public Economics*, 96 (9-10), 739-749.
- [31] Kleven, H. (2014). "How Can Scandinavians Tax So Much?" *Journal of Economic Perspectives*, 28 (4): 77-98.

Unconditional cash transfers

- [32] Hoynes, H., and J. Rothstein (2019). "Universal Basic Income in the United States and Advanced Countries." *Annual Review of Economics* 11(1), 929-958.
- [33] Jones, D., and I. Marinescu (2018). "The Labor Market Impacts of Universal and Permanent Cash Transfers: Evidence from the Alaska Permanent Fund." NBER Working Paper No. 24312 (Revised January 2020).

Labor market stabilization: insuring jobs or insuring workers

- [34] Giupponi, G., and C. Landais (2022). "Subsidizing Labor Hoarding in Recessions: The Employment and Welfare Effects of Short Time Work." Working Paper.
- [35] Giupponi, G., C. Landais, and A. Lapeyre (2022). "Should We Insure Workers or Jobs During Recessions?" Working Paper.
- [36] Landais, C., P. Michailat, and E. Saez (2018). "A Macroeconomic Approach to Optimal Unemployment Insurance: Theory." *American Economic Journal: Economic Policy*, 10 (2), 152-81.

Gender inequality

- [37] Kleven, H. (2021). "The EITC and the Extensive Margin: A Reappraisal." NBER Working Paper No. 26405.
- [38] Kleven, H. and Landais, C. (2017). "Gender Inequality and Economic Development: Fertility, Education and Norms." *Economica*, 84, 180-209.
- [39] Kleven, H., C. Landais, J. Posch, A. Steinhauer, and J. Zweimüller (2020). "Do Family Policies Reduce Gender Inequality? Evidence from 60 Years of Policy Experimentation." NBER Working Paper No. 28082.
- [40] Kleven, H., C. Landais and J. E. Sogaard (2019). "Children and Gender Inequality: Evidence from Denmark." *American Economic Journal: Applied Economics* 11(4), 181–209.
- [41] Kleven, H., C. Landais and J. E. Sogaard 2021. "Does Biology Drive Child Penalties? Evidence from Biological and Adoptive Families." *American Economic Review: Insights*, 3 (2), 183-98.

Additional references

General References in Public Economics:

- [1] Atkinson, A. and J. E. Stiglitz (1980). Lectures on Public Economics, McGraw-Hill, Singapore.
- [2] Auerbach, A. J. and M. Feldstein (eds.), Handbook of Public Economics, vol. 1 (1985), vol. 2 (1987), vol. 3 (2002), vol. 4 (2002), vol. 5 (2013), Elsevier, Amsterdam.
- [3] Gruber, J. (2019). Public Finance and Public Policy, Worth Publishers, New York.
- [4] Laffont, J.-J. (1988) Fundamentals of Public Economics. MIT Press.
- [5] Myles, G. (1995). Public Economics, Cambridge University Press, Cambridge.

[6] Salanié, B. (2003). *The Economics of Taxation*, MIT Press, Cambridge.

Background References on Empirical Methods:

- [1] Angrist, J. and A. Krueger (2001). "Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments." *Journal of Economic Perspectives* 15, 69-87.
- [2] Angrist, J. and S. Pischke (2009). "Mostly Harmless Econometrics: An Empiricist's Companion." Princeton University Press, Princeton.
- [3] Bertrand, M., E. Duflo, and S. Mullainathan (2004). "How Much Should We Trust Differences-in-Differences Estimates?" *Quarterly Journal of Economics* 119, 249-275.
- [4] Duflo, E. (2002). "Empirical Methods." MIT Mimeo.

Assessment

The assessment for this course will be a take-home assignment. Students will be asked to write a referee report on a paper provided by the course instructor. Detailed instructions will be provided separately.

Integrity and inclusion

Being part of the Bocconi community means sharing the principles expressed in the University's founding documents and the connected values completely and voluntarily. These values are: independence, ethics, transparency, freedom of expression, equality, solidarity, promotion of diversity, sustaining merit and individual potential, professionalism and standards, social responsibility. The Bocconi University Honor Code is published at <http://www.unibocconi.eu/honorcode>. Students are required to comply with the university policy on academic integrity found in the [Code of Academic Integrity for Bocconi Students](#).

We are committed to providing an inclusive environment, free of any form of discrimination. All students participating to the course are expected to adhere to this principle. Should you feel uncomfortable, please get in touch with one of the course lecturers.

Course schedule

All lectures are held in room 1.E4.SR01

Date	Time	Topic
Part I. Social insurance		
Tue. 31/01/2023	10.15 - 11.45	Introduction to social insurance
Tue. 31/01/2023	12.00 - 13.30	Unemployment insurance
Tue. 07/02/2023	10.15 - 11.45	Unemployment insurance
Tue. 07/02/2023	12.00 - 13.30	Social security
Part II. Taxes and transfers		
Tue. 14/02/2023	10.15 - 11.45	Labor supply responses to tax and transfers
Tue. 14/02/2023	12.00 - 13.30	Taxable income responses
Part III. Social economics		
Tue. 21/02/2023	10.15 - 11.45	Preferences for redistribution
Tue. 21/02/2023	12.00 - 13.30	Preferences for redistribution
Part IV. Topics in policy analysis		
Tue. 28/02/2023	10.15 - 11.45	Low-income support: tax credits and minimum wages
Tue. 28/02/2023	12.00 - 13.30	Unconditional cash transfers
Tue. 07/03/2023	10.15 - 11.45	Labor market stabilization: insuring jobs or insuring workers
Tue. 07/03/2023	12.00 - 13.30	Gender inequality