**14.472: Public Finance II: MIT Spring 2018.**

**Instructor:**
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**Teaching assistant:**
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**Lectures:** Monday/Wednesday, 1:00 pm-2:30pm, E52-432

**Recitation:** Friday, 12-1, E51-395 (when held)

**Course description:** The course focuses on government expenditures—particularly social insurance—and on government policies designed to correct market failures and/or redistribute resources. Key topics include theoretical and empirical analysis of insurance market failures, the optimal design of social insurance programs, and the design of redistributive programs.


The course pre-requisites include the MIT first year graduate micro sequence (previously or in parallel) or equivalent coursework.

**Course requirements:**
1. **Written response papers:** There will be short written response papers due at 9 am on the day of each lecture. These written response papers should be 1-2 pages and should summarize the paper that will be discussed in class, as well as identify any flaws in the paper or questions that you may have. These written responses count for 20% of the grade.
2. **Problem Sets:** There will be two problem sets that together will count for 15% of the grade.
3. **Research proposal:** There will be one assignment to pose a question motivated by the class and to design a randomized evaluation that could answer it. This will count for 15% of the grade.
4. **Final Exam:** There will be a closed book 3 hour exam during finals week which will cover the entire course material and be worth 50% of the grade.

**Course scheduling:** Peter Diamond will give a guest lecture on 2/28. Louis Kaplow will give a guest lecture on 4/11. There will be no lecture on 4/18.

**14.472 Home Page:** There is a 14.472 site ([stellar.mit.edu/S/course/14/sp18/14.472/](http://stellar.mit.edu/S/course/14/sp18/14.472/)) on stellar. Links for all of the required readings are included on the course website.

**Readings:** Students are required to read the papers in **bold** (for the longer review papers, only a light read is necessary). Readings in **italics** are highly recommended.

**Office Hours:** By appointment.
Useful introductory / background texts:

J. Gruber, Public Finance and Public Policy, 5th edition (New York: Worth Publishers, 2016) relevant chapters are 12-17 – We have posted these on the course web site.


I. Introduction: Why Have Social Insurance?


II. Empirical analysis of asymmetric information in insurance markets

Chetty, Raj and Amy Finkelstein. 2013. “Social Insurance: Connecting Theory to Data”. In Handbook of Public Economics, Vol. 5: 111-193 (Read Through Section 2)

II.a Detecting asymmetric information


II. b Welfare consequences of asymmetric information


II.c Welfare Analysis without Revealed Preference

II.c.1 Theory: Why might demand not reveal value


II.c.2 Empirics: incorporating “behavioral economics” into welfare analysis of insurance markets


II.d Analysis of insurance markets in the absence of the market


{ Bonus Topic Time Permitting) II.e Social Insurance for Non Idiosyncratic (Aggregate) or Non-Independent (Reclassification) Risks


https://eml.berkeley.edu/~bhandel/wp/DynamicInsurance.pdf


III. Moral hazard (focus on health insurance)


III.a Existence – and a brief foray into RCTs


III.b Nature of Moral Hazard


IV. Optimal Provision of Social Insurance Benefits


IV.a Theory: Optimal Level of UI


IV.b Empirics: Optimal Level of Unemployment Insurance:


Krueger, Alan B., and Bruce D. Meyer. "Labor supply effects of social insurance." Handbook of public economics 4 (2002): 2327-2392. [[read part on UI now; other parts later in course]]


IV.c Empirical Evidence: Unemployment Insurance and Firm Behavior


IV.d Reform Options


V. Tagging in Social Insurance

V.1 theory


V.2 Application: Disability Insurance


J. Gruber, Public Finance and Public Policy, Chapter 14


VI. (Some topics in) Redistribution.

VI. A1. Frameworks


VI. B. Cash vs. In kind transfers


VI.C. Take-up and Self-Targeting


VI.D. Application: subsidized health insurance for low-income adults

a) What Does Subsidized Health Insurance Do?


b) How do we Value in-kind subsidies like Health Insurance?


c) Samaritan’s dilemma


Dranove, David, Craig Garthwaite and Christopher Ody. 2015. “A Floor-and-Trade Proposal to Improve the Delivery of Charity-Care Services by U.S. Non Profits.”


VII. Choice of instrument

VII.a Private vs. Public Provision


VII. b Public Provision vs. Mandated Benefits


VII. c A Design Question in Private Provision: Compete Against Public Sector?


VII. d Another Design Issue with Private Provision: Risk adjustment


VIII. Social Security

VIII.a Social Security Background


Gruber, J. Public Finance and Public Policy, Chapter 13.


VIII.b Social Security and Saving


VIII. c Social Security and Labor Supply


