
Instructor:
Amy Finkestein (afink@mit.edu), E52-442

Teaching assistant:
Jonathan Cohen (jpcohen@mit.edu)

Lectures: Monday/Wednesday, 2:30 pm-4:00pm, E52-361

Recitation: Friday, 12-1, E51-361 (when held)

Course description: The course focuses on government expenditures, specifically social insurance, redistributive programs, and place-based policies. Key topics include theoretical and empirical analysis of insurance market failures, the optimal design of social insurance programs, and the optimal design of redistributive programs.

The department offers two graduate public finance courses: 14.471 (Public Finance I) and 14.472 (Public Finance II). Broadly speaking, 471 focuses on taxation while 472 focuses on expenditures. They may be taken in either order. Students who want to have public finance as a major field must take both 14.471 and 14.472.

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 approximately 10 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 15% 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 20% 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: There will be no lectures Monday September 30, Wednesday October 9, Wednesday November 20, and Wednesday November 27. Instead those lectures will be made up at a mutually convenient time decided in the first two weeks of the semester.

14.472 Home Page: There is a 14.472 site (https://stellar.mit.edu/S/course/14/fa19/14.472/) 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 before class. 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.


PART I: SOCIAL INSURANCE

I. Introduction: Why Have Social Insurance?


II. Empirical analysis of asymmetric information in insurance markets

IIa. Theory : Adverse Selection and Moral Hazard


II.b Detecting asymmetric information


II.c Welfare consequences of asymmetric information


II.d Welfare Analysis without Revealed Preference

IId.1 Theory: Why might demand not reveal value


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


**II.e Analysis of insurance markets in the absence of the market**


**III. Optimal Provision of Social Insurance Benefits**

III.a Theory: Optimal UI Benefits and Levels


III.b. Empirics I: Moral hazard ("cost" side of optimal insurance calculation)


### III.c Empirics II: WTP for insurance (“benefit” side of optimal insurance calculation)


http://personal.lse.ac.uk/spinnewi/valueUI.pdf

B. Meyer, “Unemployment Insurance and Unemployment Spells,” Econometrica, 58(4), July 1990,
pp. 757-782.

Shimer, Robert, and Ivan Werning, 2007, "Reservation Wages and Unemployment Insurance."

III.d Reform Options

M. Feldstein and D. Altman, 2007 “Unemployment Insurance Savings Accounts” Tax Policy and the

J. Kling, “Fundamental Restructuring of Unemployment Insurance: Wage-Loss Insurance and
Temporary Earnings Loss Replacement Accounts,” Hamilton Project Discussion Paper, September

Holzmann, Robert; Vodopivec, Milan. 2011. Reforming severance pay: an international perspective.

Ille. (Some) Other Social Insurance Design Questions

Experience Rating / Financing

1983, pp. 541-559.

Anderson, P.M., 1993. Linear adjustment costs and seasonal labor demand: evidence from retail

Card, D. and Levine, P. B. (1994), Unemployment insurance taxes and the cyclical and seasonal


IV. Choice of Instrument

Public provision vs. mandates


Public vs. Private Provision


Regulation of Privately Provided Social Insurance


PART II: REDISTRIBUTION

VA. Social Welfare Frameworks


VB. Cash vs. In kind transfers


V.C. Take-up and Self-Targeting


Part III: SYNTHESIS: Health Insurance Policy for Low Income Adults

VIA. What Does Subsidized Health Insurance Do?


https://www.povertyactionlab.org/sites/default/files/publications/Insuring_the_Uninsured.pdf

VIB. How do we Value in-kind subsidies like Health Insurance?


VIC. Samaritan’s dilemma


Part IV: Local Public Finance and Place-Based Policies

1. Tiebout plus (Guest Lecture: Parag Pathak)


2. Place Based Policies: Theory and Evidence (2 Guest Lectures: Owen Zidar)


Slattery, Calin and Owen Zidar, 2019, "Evaluating State and Local Business Tax Incentives"