Wood

14.472: Public Finance II: MIT Fall 2022

Instructor:
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Teaching assistant:
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Lectures: Monday/Wednesday, 2:30 pm-4:00pm, E51-372

Recitation: Friday, 12-1, E52-532

Course description: The course focuses on government expenditures, specifically social insurance, and redistributive programs. 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 10-12 short written response papers due by midnight the day before each lecture. These written response papers should be 1-2 pages and briefly summarize the paper’s contributions as well as identify any flaws in the paper or questions that you may have. You are encouraged to think constructively, such as proposing additional data or tests that could address your concerns or alternative settings in which the methodology could be applied. These written responses count for 15% of the grade.
2. Problem Sets: There will be one problem set that counts for 10% 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. It will be due on the last day of class, Wednesday December 12.
4. Class participation: Active class participation is key for a successful learning experience. It will also count for 15% of the grade.
5. Final Exam: There will be a closed book 3 hour exam during finals week which will cover the entire course material and be worth 40% of the grade.

Course scheduling:
- There are three scheduled lectures that will not occur:
  - Monday September 26 (Rosh HaShana)
- Wednesday October 5 (Yom Kippur)
- Wednesday November 23 (Thanksgiving)

- In their place, Nathan Hendren will give two lectures on place-based policies, tentatively scheduled for **November 8, 5-8 pm in E51-395**. (Pizza will be provided!).

**14.472 Home Page:** There is a 14.472 site (https://canvas.mit.edu/courses/15534) on Canvas. Links for all of the required readings are included on the course website. All assignments should be submitted under the “Assignments” tab. Zoom links for lectures and recitations will be posted here. The Canvas page also links to [Piazza](http://piazza.com/mit/fall2022/14472), which will be used for class discussion. Feel free to post questions on class materials, readings, or general research topics. Adam will respond, though you are highly encouraged to interact with classmates on the forum.

**Readings:** Students are required to read the papers in bold before class. This is essential for the classroom lecture and discussion to be effective. Readings in *italics* are highly recommended for all students, especially those planning to have public finance as a major field.

**Office Hours:** By appointment.

**Reporting bias-related or other incidents:** The Economics Department fully endorses the Institute Discrimination and Harrassment Response Office (IDHR) reporting process for any bias-related incident. We encourage students to use this valuable resource if needed for any reason. This process is useful for addressing any issues that may arise with professors, teaching assistants, or other students in this course. If you’ve had a negative experience and aren’t sure if IDHR is the place to go, they can also help you find the right office at MIT to receive support. The department values such reports as important to our pursuit of equitable and inclusive treatment for all students, faculty, and staff. [https://idhr.mit.edu/submitincidentreport](https://idhr.mit.edu/submitincidentreport)

**Accessibility and support:** The Economics Department values an inclusive environment. If you need a disability accommodation to access this course, please communicate with us early in the semester. If you have your accommodation letter, please meet with the faculty so that we can understand your needs and implement your approved accommodations. If you have not yet been approved for accommodations, please contact Student Disability Services at <uaap-sds@mit.edu> to learn about their procedures. We encourage you to do so early in the term to allow sufficient time for implementation of services/accommodations that you may need.
Useful introductory / background texts:

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


IIb Testing for selection


II.c Welfare consequences of asymmetric information


II.d Welfare Analysis without Revealed Preference

II.d.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: A bit on moral hazard and a lot on value of insurance

A little bit on the cost side:


And now for the benefit side


III.c. Empirics II: More on Moral hazard


**Mahoney, Neale. 2022.** “Principles for Combining Descriptive and Model-Based Analysis in Applied Microeconomics Research”. *Journal of Economic Perspectives*. August.


**IV. Choice of Instrument (potpourri)**

*Choice in Insurance Markets*


**Public provision vs. mandates**


**Public vs. Private Provision**


*Regulation of Privately Provided Social Insurance*


**PART II: REDISTRIBUTION**

**VA. Social Welfare Frameworks**


VB: Instruments (Theory)


VC: Application: Cash vs. In-Kind


Zachary Liscow and Abigail Pershing, Why Is So Much Redistribution In-Kind and Not in Cash? Evidence from a Survey Experiment, National Tax Journal 2022 75:2, 313-354

V.D. Application: Take-up and Self-Targeting


**Part III: SYNTHESIS: Health Insurance Policy for Low Income Adults**
VIA. What Does Subsidized Health Insurance Do?


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


VIC. Samaritan’s dilemma


