

Economics 14.472: Public Economics
MIT Economics
Fall 2024

Professors Amy Finkelstein (afink@mit.edu) and Nathaniel Hendren (nhendren@mit.edu)
Teaching Assistant: Adam Solomon (adamsol@mit.edu)

Class: Mondays and Wednesdays, 230-4pm (E52-432)
Recitation: Friday, 12-1pm (E52-432)
OH (with Adam): Friday, 1pm-2pm (E52-432)

Course Description

The course will focus on a range of topics in public economics, primarily focused on expenditure policy and policies designed to correct market failures. It will be roughly equally divided between two main topics, redistribution and social insurance, with some additional topics that vary year to year (this year we'll have a few lectures on the efficiency of government spending and procurement). Key topics include principles of welfare estimation of government policies, the optimal design of redistributive programs, theoretical and empirical analyses of insurance markets, and the optimal provision of social insurance. Throughout, the course will devote considerable attention to the development of an integrated theoretical toolkit for normative evaluation of government policies, as well as to the complementarities between theory and (a range of) empirical methods.

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

There are four requirements for this course:

1. Problem sets – there will be 2 problem sets that you are required to complete.
The first one will be handed out September 18th and due **October 16th**
The second one will be handed out October 23rd and due **November 20th**
2. Written comments - There will be 10-12 short written response papers that must be submitted to Canvas by 7am on the day of class to enable us to read them before class. These written response papers should be no more than 1 page (double spaced), and can be shorter. They should briefly summarize the paper and provide one or two “big picture” comments on the paper. These can include, for example, suggestions for further research; an important question related to the paper that the paper does not address (or leaves unanswered); alternative interpretations for the paper’s findings; or a major substantive concern with the analysis.
3. Research proposal -- you will be asked to develop a research proposal and introductory analysis that either builds on an existing paper or is an independent topic. All projects must be approved in advance by Profs. Finkelstein or Hendren by **November 4th** (although you may change it subsequently with our permission). Your proposal need not include data analysis, but must describe a project that is in principle feasible if you were to get access to the necessary data

(which ideally exists in principle). So that you have sufficient time to focus on the exam, all projects will be due by the end of the day on **December 11th**. Please submit your proposal in the form of a 3-5 page write-up that discusses the question of interest, proposed methodology, and any preliminary results. *For those who want to follow up to discuss their proposal, we will have optional in-person meetings over IAP.*

4. Final exam – this will take place during the registrar’s allotted time during exam period.

Your grade will be 40% final exam, 20% problem sets, 20% final research proposal, and 20% weekly responses.

Office Hours: By Appointment

Reporting bias-related or other incidents: The Economics Department fully endorses the Institute Discrimination and Harassment 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>

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>](mailto: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.

14.472 Home Page: There is a 14.472 site (<https://canvas.mit.edu/courses/27202>) on Canvas. Links for all of the weekly 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 **Slack** <https://mit.enterprise.slack.com/archives/C07JCFMSRRC> , 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.

Lecture Schedule and Required Readings

Class on the first day, Wednesday September 4, will be in **E51-361**.

There is no class on Wednesday November 27.

The topic schedule for each week is as follows:

September 4: Introductory lecture (Finkelstein and Hendren)

REDISTRIBUTION

Week 1 Empirical Welfare Analysis

September 9-11: Empirical Welfare Estimation and the MVPF (Hendren)

Week 2: Cash vs. In Kind Redistribution

September 16 Theory (Hendren)

September 18 Empirics (Finkelstein)

Week 3 Take-up and Self Targeting

September 23-25: Take-up and Self-Targeting (Finkelstein)

Week 4: Place-Based Policies 1

September 30: Theory (Hendren)

October 2: Empirics (Hendren)

Week 5: Intergenerational Considerations

October 7: Effects of Neighborhoods on Kids (Hendren)

October 9: Intergenerational Redistribution (Hendren)

SOCIAL INSURANCE

Week 6: Asymmetric Information: Theory

October 16: Theory (Finkelstein and Hendren)

Week 7: Asymmetric Information: Empirics (Testing and Welfare)

October 21: Empirical testing (Finkelstein)

October 23: Welfare with revealed preference (Finkelstein)

Week 8: Asymmetric Information: Empirics (Welfare without revealed preference)

October 28: Demand does not reveal value (Finkelstein)

October 30: No Markets (Finkelstein and Hendren)

Week 9: Optimal Social Insurance: Theory and Empirics

November 4: and Nov 6: Optimal Social Insurance Benefits (Hendren)

Week 10: Reclassification Risk

November 13: Reclassification Risk (Hendren)

Week 11: Optimal Health Insurance Policy for Low-Income Individuals

November 18-20 Optimal Health Insurance Policy for Low-Income Adults (Finkelstein)

Week 12: Health Insurance Reform

November 25: Health Insurance Reform (Finkelstein)

November 27: No lecture – Happy Thanksgiving!

GOVERNMENT EFFICIENCY

Week 13: Policy Design

December 2 Choice of Instrument (Finkelstein)

December 4: Targeting government programs (Finkelstein)

Week 14: Procurement and Wrap Up

December 9 Government procurement (Hendren)

December 11: Wrap-up lecture (Finkelstein and Hendren)

Readings

Note that the discussion paper(s) are in **bold**, and other required readings (which should be read before class) are in *italics*.

Week 1 Empirical Welfare Analysis

September 9-11: Empirical Welfare Estimation and the MVPF (Hendren)

Hendren and Sprung-Keyser (2020, QJE), “A Unified Welfare Analysis of Government Policies”

Hendren and Finkelstein (2020, JEP), “Welfare Analysis Meets Causal Inference”

Bastani, S. The marginal value of public funds: a brief guide and application to tax policy. *Int Tax Public Finance* (2024). <https://doi.org/10.1007/s10797-024-09860-x>

Saez, E. and Stantcheva, S., 2016. Generalized social marginal welfare weights for optimal tax theory. *The American Economic Review*, 106(1), pp.24-45.

Mayshar (1990), “[On Measures of Excess Burden and Their Application](#)”, *Journal of Public Economics* v 43 no 3.

Hendren (2016), “[The Policy Elasticity](#)”, *Tax Policy and the Economy*.

Harberger, A. (1964) “The Measurement of Waste”, *American Economic Review*, 54

Ballard, C. L. and D. Fullerton (1992), “Distortionary Taxes and the Provision of Public Goods”, *Journal of Economic Perspectives*

Feldstein, M. (1999). “Tax Avoidance and the Deadweight Loss of the Income Tax”, *The Review of Economics and Statistics*, 81(4)

Kleven, H. J. and C. T. Kreiner (2006). “The Marginal Cost of Public Funds: Hours of Work Versus Labor Force Participation”, *Journal of Public Economics*

Dahlby, B. (2008) *The Marginal Cost of Public Funds*, MIT Press

Hendren, Nathaniel. 2020. “[Measuring Economic Efficiency Using Inverse-Optimum Weights](#).” *Journal of Public Economics* 187.

Mirrlees, James A. "Optimal tax theory: A synthesis." *Journal of Public Economics* 6.4 (1976): 327-358.

Jacobs, Bas, Egbert L.W. Jongen and Floris T. Zoutman. "Revealed Social Preferences of Dutch Political Parties" *Journal of Public Economics* 165 (2017): 81-100.

Hicks, J. R. (1939) “The Foundations of Welfare Economics”, *Economic Journal*, 49

Kaldor, N. (1939) “Welfare Propositions of Economics and Interpersonal Comparisons of Utility”, *Economic Journal*, 49

Bourguignon, F. and Spadaro, A., 2012. Tax–benefit revealed social preferences. *The Journal of Economic Inequality*, 10(1), pp.75-108.

Week 2: Cash vs. In Kind Redistribution

September 16 Theory (Hendren)

Ferey, Antoine, Benjamin Lockwood, and Dmitry Taubinsky. Sufficient statistics for nonlinear tax systems with general across-income heterogeneity. Forthcoming, *American Economic Review*

Kaplow, L., 2004. On the (ir) relevance of distribution and labor supply distortion to government policy. *The Journal of Economic Perspectives*, 18(4), pp.159-175.

Kaplow, Louis. "Public goods and the distribution of income." *European Economic Review* 50.7 (2006): 1627-1660.

Kaplow, Louis. "On the undesirability of commodity taxation even when income taxation is not optimal." *Journal of Public Economics* 90.6 (2006): 1235-1250.

Kaplow, Louis. "Market Power and Income Taxation." NBER Summer Institute (2018). http://papers.nber.org/conf_papers/f105223/f105223.pdf

Hylland, A. and R. Zeckhauser (1979). Distributional objectives should affect taxes but not program choice or design. *The Scandinavian Journal of Economics* 81(2), 264–284

Christiansen, V. (1977). The theoretical basis for deriving distributive weights to be used in cost-benefit analysis. Technical report, Memorandum from the Institute of Economics, University of Oslo, 25 April

Christiansen, V. (1981, 07). Evaluation of Public Projects under Optimal Taxation. *The Review of Economic Studies* 48(3), 447–457.

Christiansen, V. and E. S. Jansen (1978). Implicit social preferences in the norwegian system of indirect taxation. *Journal of Public Economics* 10(2), 217 – 245.

Diamond, P. and J. Mirrlees (1971). "Optimal Taxation and Public Production I: Production Efficiency", *American Economic Review*, 61(1)

Atkinson, Anthony Barnes, and Joseph E. Stiglitz. "The design of tax structure: direct versus indirect taxation." *Journal of public economics* 6.1 (1976): 55-75.

Saez, Emmanuel. "The desirability of commodity taxation under non-linear income taxation and heterogeneous tastes." *Journal of Public Economics* 83.2 (2002): 217-230.

September 18 Empirics (Finkelstein)

Banerjee, Abhijit, Rema Hanna, Ben Olken, Elan Satriawan and Sudarno Sumarto. 2023. "Electronic Food Vouchers: Evidence from an At-Scale Experiment in Indonesia." *American Economic Review* 113(2): 514-547.

Blanco, H. 2023. "Pecuniary Effects of Public Housing Demolitions: Evidence from Chicago" *Regional Science and Urban Economics* 98.

Coate, S., S. Johnson, and R. Zeckhauser. 1994. "Pecuniary Redistribution through In-Kind Programs". *Journal of Public Economics* 55, 19-40.

Coate, S. 1995. "Altruism, the Samaritan's Dilemma, and Government Transfer Policy." *American Economic Review* 85(1): 46-57.

Currie, Janet and Firouz Gahvari. 2008. "Transfers in Cash and in Kind: Theory Meets the Data." *Journal of Economic Literature* 46 (2): 333-383.

Deshpande, M. and Lockwood L.M. 2022. Beyond Health: Non-Fatal Risk and the Value of Disability Insurance. *Econometrica* 90(4): 1781-1810.

Cunha, J.M., De Giorgi, G. and Jayachandran, S., 2018. The price effects of cash versus in-kind transfers. *The Review of Economic Studies*, 86(1), pp.240-281.

Diamond, Rebecca, Tim McQuade and Franklin Qian. 2019. "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco." *American Economic Review* 109(9): 3365-94.

Gadenne, Lucie, Samuel Norris, Monica Singhal, and Sandip Sukhtankar. forthcoming. "In-Kind Transfers as Insurance." *American Economic Review*, https://msinghal.faculty.ucdavis.edu/wp-content/uploads/sites/340/2024/06/pds_price_risk.pdf

Gaubert, Cecile, Patrike Kline, Damian Vergara and Danny Yagan. 2020. Place-Based Redistribution. <https://eml.berkeley.edu/~yagan/PlaceBasedRedistribution.pdf>

Lieber, E.M. and Lockwood, L.M., 2019. Targeting with In-Kind Transfers: Evidence from Medicaid Home Care. *American Economic Review*, 109(4), pp.1461-85.

Liscow, Zachary 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

Nichols, A. and R. Zeckhauser, "Targeting Transfers Through Restrictions on Recipients," *American Economic Review* 72 (May 1982), 372-377.

Week 3 Take-up and Self Targeting

September 23-25: Take-up and Self-Targeting (Finkelstein)

Alatas, Vivi, Abhijit Banerjee, Rema Hanna, Benjamin Olken, Ririn Purnamasari, and Matthew Wai Poi. 2016. "Self Targeting: Evidence from a Field Experiment in Indonesia". Journal of Political Economy, 124 (2): 371-427.

Anders, Jenna and Charlie Rafkin. 2024. "Welfare Effects of Eligibility Expansions: Theory and Evidence from SNAP."
https://www.charlierafkin.com/docs/ar_eligibility.pdf

Bettinger, Eric, Bridget Long, Phil Oreopoulos and Lisa Sanbonmatsu. 2012. "The Role of Simplification and Information: Evidence from the FAFSA Experiment." *Quarterly Journal of Economics* 127 (3): 1205-1242.

Bhargava, Saurabh and Dayand Manoli. 2015. "Psychological Frictions and the Incomplete Take-up of Social Benefits: Evidence from an IRS Field Experiment" *American Economic Review* 105(11): 3489-3529.

Bertrand, Marrienne, Sendil Mullainathan, and Eldar Shafir. 2004. "[A Behavioral-Economics View of Poverty](#)." *American Economic Review Papers and Proceedings*, May 2004, 419-423.

Burland, Elizabeth, Susan Dynarski, Katherine Micheltore, Stephanie Owen and Shwetha Raghuraman. 2023. "The Power of Certainty: Experimental Evidence on the Effective Design of Free Tuition Programs." *American Economic Review: Insights* 5(3).

Currie, Janet. 2006. "The Take-up of Social Benefits" in "Poverty, The Distribution of Income, and Public Policy" edited by A. Auerbach, D. Card, and J. Quigley, pp.80-148, New York: Russell Sage

Deshpande, M. and Li, Y., 2019. Who is screened out? application costs and the targeting of disability programs. American Economic Journal: Economic Policy

Dynarski, Susan, Katherine Micheltore, CJ Libassi and Stephanie Owen. 2021. "Closing the Gap: The Effect of Reducing Complexity and Uncertainty in College Pricing on the Choices of Low-Income Students." *American Economic Review* 111(6): 1721-1756.

Finkelstein, A. and Notowidigdo, M.J., 2019. Take-up and targeting: Experimental evidence from SNAP. *The Quarterly Journal of Economics*, 134(3), pp.1505-1556.

Handel, Benjamin, Jonathan Kolstad, Thomas Minten, Johannes Spinnewijn. Forthcoming. "The Socio-Economic Distribution of Choice Quality: Evidence from Health Insurance in the Netherlands." *American Economic Review: Insights*.

Ko, Wonsik and Robert A. Moffitt. 2022. Take-up of Social Benefits. <https://www.nber.org/papers/w30148>

Mullainathan, Sendhil and Eldar Shafir. 2013. Scarcity: Why Having Too Little Means So Much. New York: Henry Holt and Company.

Nichols, A. and R. Zeckhauser, "[Targeting Transfers Through Restrictions on Recipients](#)," *American Economic Review* 72 (May 1982), 372-377.

Rafkin, Charlie, Adam Solomon, and Evan Soltas. 2024. [Self-targeting in U.S. Transfer Programs](#)

Shilbach, Frank, Heather Shofield and Sendhil Mullainathan. 2016. "The Psychological lives of the poor." *American Economic Review Papers and Proceedings*. May: 106(5): 435-440.

Week 4: Place-Based Policies 1

September 30: Theory (Hendren)

October 2: Empirics (Hendren)

Owen Zidar's lecture slides from when he taught at MIT <https://zidar.princeton.edu/classes/mit-14472-graduate-public-economics-ii-guest-lectures-spatial-public-finance>

Slattery, Cailin. "Bidding for firms: Subsidy competition in the US." *Available at SSRN 3250356* (2022).

Serrato, Juan Carlos Suárez, and Owen Zidar. "Who benefits from state corporate tax cuts? A local labor markets approach with heterogeneous firms." *The American Economic Review* 106.9 (2016): 2582-2624.

Diamond, Rebecca. "The determinants and welfare implications of US workers' diverging location choices by skill: 1980–2000." *The American Economic Review* 106.3 (2016): 479-524.
Moretti, Enrico. "Estimating the social return to higher education: evidence from longitudinal and repeated cross-sectional data." *Journal of econometrics* 121.1 (2004): 175-212.

Roback, Jennifer. "Wages, rents, and the quality of life." *Journal of political economy* 90.6 (1982): 1257-1278.

Feldstein, Martin, and Marian Vaillant Wrobel. "Can state taxes redistribute income?." *Journal of Public Economics* 68.3 (1998): 369-396.

Agrawal, David R., William H. Hoyt, and Tidiane Ly. "A new approach to evaluating the welfare effects of decentralized policies." *Available at SSRN 4009872* (2022).

Slattery, Cailin, and Owen Zidar. "Evaluating state and local business incentives." *Journal of Economic Perspectives* 34.2 (2020): 90-118.

Garrett, Daniel G., Eric Ohn, and Juan Carlos Suárez Serrato. "Tax policy and local labor market behavior." *American Economic Review: Insights* 2.1 (2020): 83-100.

Week 5: Intergenerational Considerations

October 7: Effects of Neighborhoods on Kids (Hendren)

October 9: Intergenerational Redistribution (Hendren)

Chetty, Raj, et al. "Where is the land of opportunity? The geography of intergenerational mobility in the United States." *The quarterly journal of economics* 129.4 (2014): 1553-1623.

Chetty, Raj, and Nathaniel Hendren. "The impacts of neighborhoods on intergenerational mobility I: Childhood exposure effects." *The Quarterly Journal of Economics* 133.3 (2018): 1107-1162.

Chetty, Raj, and Nathaniel Hendren. "The impacts of neighborhoods on intergenerational mobility II: County-level estimates." *The Quarterly Journal of Economics* 133.3 (2018): 1163-1228

Chetty, Raj, Nathaniel Hendren, and Lawrence F. Katz. "The effects of exposure to better neighborhoods on children: New evidence from the moving to opportunity experiment." *American Economic Review* 106.4 (2016): 855-902.

Chyn, Eric. "Moved to opportunity: The long-run effects of public housing demolition on children." *American Economic Review* 108.10 (2018): 3028-3056.

Bergman, Peter, et al. "Creating moves to opportunity: Experimental evidence on barriers to neighborhood choice." *American Economic Review* 114.5 (2024): 1281-1337.

[Read for Monday Class] Derenoncourt, Ellora. "Can you move to opportunity? Evidence from the Great Migration." *American Economic Review* 112.2 (2022): 369-408.

Diamond, Peter A. (1965): "National Debt in a Neoclassical Growth Model," *American Economic Review*, 55, 1126–1150, <http://www.jstor.org/stable/1809231>.

Weil, Philippe (2008): "Overlapping Generations: The First Jubilee," *Journal of Economic Perspectives*, 22(4), 115–34.

SOCIAL INSURANCE

Week 6: Asymmetric Information: Theory

October 16: Theory (Finkelstein and Hendren)

Akerlof, G. 1970. "The Market for Lemons: Quality Uncertainty and the Market Mechanism." *Quarterly Journal of Economics* 84(3): 488-500.

Einav, Liran and Amy Finkelstein. 2011. "Selection in Insurance Markets: Theory and Empirics in Pictures." Journal of Economic Perspectives (Vol 25 (1): 115-138).

M. Rothschild and J. Stiglitz, "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information." Quarterly Journal of Economics, 90(4), November 1976: 629-650.

Week 7: Asymmetric Information: Empirics (Testing and Welfare)

October 21: Empirical testing (Finkelstein)

Carey, Colleen. 2017. "Technological Change and Risk Adjustment: Benefit Design Incentives in Medicare Part D," *American Economic Journal: Economic Policy* 9, no. 1 (2017): 38–73

Chiappori, Pierre-Andre and Bernard Salanie. "Testing for Asymmetric Information in Insurance Markets." *Journal of Political Economy*, 2000, 108 (1), pp. 56-78.

Cooper, Alicia L. and Amal N. Trivedi, 2012. "Fitness Memberships and Favorable Selection in Medicare Advantage Plans," *New England Journal of Medicine* 366, no. 2 (January 12,): 150–57, <https://doi.org/10.1056/NEJMsa1104273>.

Einav, Liran, Amy Finkelstein and Ray Fisman. 2023. *Risky Business: Why Insurance Markets Fail and What To Do About It*. Yale University Press.

Finkelstein, Amy and Kathleen McGarry. 2006. "[Multiple Dimensions of Private Information: Evidence from the Long-Term Care Insurance Market](#)," *American Economic Review* September, 938 – 958.

Fang, Hanming, Michael Keane, and Dan Silverman (2008), "Sources of Advantageous Selection: Evidence from the Medigap Insurance Market," *Journal of Political Economy* 116(2): 303-350.

Karlan, Dean and Jonathan Zinman. 2009. "Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment," *Econometrica*, Vol. 77, No. 6: 1993–2008

Kreider, Amanda, Timothy Layton, Mark Shepard, and Jacob Wallace. Forthcoming. "Adverse Selection and Network Design Under Regulated Plan Prices: Evidence from Medicaid." *Journal of Health Economics*
<https://scholar.harvard.edu/mshepard/publications/adverse-selection-and-network-design-under-regulated-plan-prices-evidence>

Landaïs, Camille, Nekoei, A. Peter Nilsson, David Seim and Johannes Spinnewijn. 2021. "Risk Based Selection in Unemployment Insurance: Theory and Evidence." *American Economic Review* April.

Panhans, Matthew. 2019. "Adverse Selection in ACA Exchange Markets: Evidence from Colorado." *American Economic Journal: Applied Economics*. April. Volume 11 (2): 1-36.

Shepard, Mark. 2022. "Hospital Network Competition and Adverse Selection: Evidence from the Massachusetts Health Insurance Exchange." *American Economic Review*

Wagner, Katherine R H. 2022. "Adaptation and Adverse Selection in Markets for Natural Disaster Insurance." *American Economic Journal: Economic Policy*, 14 (3): 380-421

October 23: Welfare with revealed preference (Finkelstein)

Bundorf, Kate M., Jonathan Levin, and Neale Mahoney, 2012, "Pricing, Matching and Efficiency in Health Plan Choice," *American Economic Review* 102(7): 3214-3248

Cabral, Marika, Can Cui, and Michael Dworsky. 2022. "The Demand for Insurance and Rationale for a Mandate: Evidence from Workers' Compensation Insurance." *American Economic Review*, 112 (5): 1621-68.

Cohen, Alma and Liran Einav. 2007. "Estimating Risk Preferences from Deductible Choice" *American Economic Review*. June: 745-788

DeFusco, Anthony, Huan Tang and Constantine Yannelis. 2021. "Measuring the Welfare Costs of Asymmetric Information in Consumer Credit Markets." NBER WP 29270.

Einav, Liran and Amy Finkelstein. 2023. "Empirical analyses of selection and welfare in insurance markets: a self-indulgent survey". *The Geneva Risk and Insurance Review*, 48(2): September, 167-191

Einav, Liran, Amy Finkelstien and Jonathan Levin. 2010. "Beyond Testing: Empirical Models of Insurance Markets". *Annual Review of Economics* (2): 311-336.

Einav, Liran, Amy Finkelstein and Neale Mahoney. 2021. "The IO of Selection Markets". *Handbook of Industrial Organization Volume 5(1): Chapter 14*. Kate Ho, Ali Hortascu and Allesandro Lizzeri (eds).

Einav, Liran, Amy Finkelstein and Paul Schrimpf. 2010. "Optimal Mandates and the Welfare Cost of Asymmetric Information: Evidence from the U.K. Annuity Market." *Econometrica* 78(3): 1031-1092.

Einav, Liran, Amy Finkelstein and Mark Cullen. 2010. "Estimating Welfare in Insurance Markets Using Variation in Prices." *Quarterly Journal of Economics* 123 (3): 877-921.

Finkelstein, A., Hendren, N. and Shepard, M., 2019. Subsidizing health insurance for low-income adults: Evidence from Massachusetts. *American Economic Review*, 109(4), pp.1530-67..

Michael Geruso, Timothy J. Layton, Grace McCormack, Mark Shepard; The Two Margin Problem in Insurance Markets. *The Review of Economics and Statistics* 2021;

Landais, Camille, Nekoei, A. Peter Nilsson, David Seim and Johannes Spinnewijn. 2021. "Risk Based Selection in Unemployment Insurance: Theory and Evidence." *American Economic Review* April.

Mahoney, Neale and E. Glen Weyl. (2017). "Imperfect Competition in Selection Markets." *Review of Economics and Statistics* 99 (4): 637-651.

Veiga, Andre and E. Glen Weyl. 2016. "Product Design in Selection Markets" *Quarterly Journal of Economics* 131 (2): 1007-1056.

Week 8: Asymmetric Information: Empirics (Welfare without revealed preference)
October 28: Demand does not reveal value (Finkelstein)

Abaluck, Jason and Abi Adams-Prassl. 2021. "What Do Consumers Consider Before They Choose? Identification from Asymmetric Demand Responses."

Abaluck, Jason and Jonathan Gruber. 2011. "Choice Inconsistencies Among the Elderly: Evidence from Plan Choice in the Medicare Part D program" *American Economic Review* 101(4): 1180-1210.

Bhargava, Saurabh, George Loewenstein and Justin Sydnor. 2017. "Choose to Lose: Health Plan Choices from a Many with Dominated Option" *Quarterly Journal of Economics*. 132(3): 1319-1372.

Barseghyan, Levon, Jeffrey Prince, and Joshua Teitelbaum. 2011. "Are Risk Preferences Stable across Contexts? Evidence from Insurance Data." *American Economic Review*, 101(2): 591-631.

Barseghyan, Levon, Francesca Molinari, Ted O'Donoghue, and Joshua Teitelbaum. "The Nature of Risk Preferences: Evidence from Insurance Choices." *American Economic Review* 103, no. 6 (2013): 2499-2529.

Cohen, Alma and Liran Einav. 2007. "Estimating Risk Preferences from Deductible Choice" *American Economic Review*. June: 745-788

Einav, Liran, Amy Finkelstein, Iuliana Pascu and Mark Cullen. 2012. "How General Are Risk Preferences? Choices under Uncertainty in Different Domains." *American Economic Review* 102(6): 2606-2638.

Ericson, Keith and Justin Sydnor. 2018. "Liquidity constraints and the value of insurance." NBER Working Paper 24993.

Handel, Benjamin and Jonathan Kolstad. 2014. "Health Insurance for Humans: Information Frictions, Plan Choice and Consumer Welfare." *American Economic Review*, 105:8, August 2015, 2449-2500.
<https://www.aeaweb.org/articles?id=10.1257/aer.20131126>.

Handel, Benjamin. 2013. "Adverse selection and Inertia in Health Insurance Markets: When Nudging Hurts" *American Economic Review* vol. 103 (7), 2013, 2643-2682

Handel, B.R., Kolstad, J.T. and Spinnewijn, J., 2019. Information frictions and adverse selection: Policy interventions in health insurance markets. *Review of Economics and Statistics*, 101(2), pp.326-340.

Hendren, Nathaniel. 2021. Measuring Ex Ante Welfare in Insurance Markets, *The Review of Economic Studies*, Volume 88, Issue 3, May, Pages 1193–1223,
<https://doi.org/10.1093/restud/rdaa015>

Kling, Jeffrey, Sendhil Mullainathan, Eldar Shafir, Lee Vermeulen, and Marian Wrobel. 2012 "Comparison Friction: Experimental Evidence from Medicare Drug Plans." *Quarterly Journal of Economics*, 127:1

Liu, Chenyuan and Justin Sydnor. 2022. "Dominated Options in Health-Insurance Plans" *American Economic Journal: Economic Policy*, Vol 14 (1):277-300.

Polyakova, Maria. 2016. "Regulation of insurance with adverse selection and switching costs: Evidence from Medicare Part D." *American Economic Journal: Applied Economics*, Vol 8, No. 3, July 2016, 165-195.

Sydnor, Justin. 2010. "(Over)insuring modest risks" *American Economic Journal: Applied Economics*, October: 177-199

Spinnewijn, Johannes. 2017. "Heterogeneity, Demand for Insurance, and Adverse Selection.", *American Economic Journal: Economic Policy*, 9(1):308-43.

October 30: No Markets (Finkelstein and Hendren)

Brown, Jeffrey and Amy Finkelstein. 2008. "[The Interaction of Public and Private Insurance: Medicaid and the Long-Term Care Insurance Market](#)." *American Economic Review* 98 (3): 1083 – 1102.

Fischer, Torben, Markus Frolich, and Andreas Landmann. 2018. "Adverse Selection in Low-Income Health Insurance Markets: Evidence from an RCT in Pakistan." <http://ftp.iza.org/dp11751.pdf>

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Week 9: Optimal Social Insurance: Theory and Empirics

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Week 10: Reclassification Risk

November 13: Reclassification Risk (Hendren)

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Week 11: Optimal Health Insurance Policy for Low-Income Individuals

November 18-20 Optimal Health Insurance Policy for Low-Income Adults (Finkelstein)

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Week 12: Health Insurance Reform

November 25: Health Insurance Reform (Finkelstein)

Incremental reform

Finkelstein, Amy, Casey C. McQuillan, Owen M. Zidar and Eric Zwick. "The Health Wedge and Labor Market Inequality." 2023. *Brookings Papers on Economic Activity*, Spring, 425-475. <https://www.brookings.edu/articles/the-health-wedge-and-labor-market-inequality/>

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Radical reform

Einav, Liran and Amy Finkelstein. 2023. "We've Got You Covered." *Portfolio*.

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November 27: No lecture – Happy Thanksgiving!

GOVERNMENT EFFICIENCY

Week 13: Policy Design

December 2 Choice of Instrument: Potpourri (Finkelstein)

Choice in Insurance Markets

Landaïs, Camille, Nathan Hendren and Johannes Spinnewijn. 2022. "Choice in Insurance Markets: A Pigouvian Approach to Social Insurance Design." *Annual Reviews of Economics*

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Public provision vs. mandates

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Knutsson, Daniel and Bjorn Tyrefors 2022. "The Quality and Efficiency of Public and Private Firms: Evidence from Ambulance Services. *Quarterly Journal of Economics*

Cabral, Marika and Neale Mahoney. 2019. "Externalities and Taxation of Supplemental Insurance: A Study of Medicare and Medigap." *AEJ: Applied Economics* 11(2): 33-73.

Cabral, Marika, Michael Geruso, and Neale Mahoney. 2018. "Do Larger Health Insurance Subsidies Benefit Patients or Producers? Evidence from Medicare Advantage." *American Economic Review* 108(8), August, 2048-87.

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Regulation of Privately Provided Social Insurance

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December 4: Targeting Government Programs (Finkelstein)

Aspelund, Karl and Anna Russo. 2024. ["Additionality and Asymmetric Information in Environmental Markets: Evidence from Conservation Auctions."](#)

Einav, Liran, Amy Finkelstein, Yunan Ji and Neale Mahoney. 2022. "Voluntary Regulation: Evidence from Medicare Payment Reform." *Quarterly Journal of Economics* 137(1): 565-618.

Einav, Liran, Amy Finkelstein, Paul Schrimpf, Stephen Ryan and Mark Cullen. 2013. "Selection on moral hazard in health insurance." *American Economic Review* 103(1): 178-219.

Haushofer, Niehaus, Paramo, Miguel, and Walker. 2022. "Targeting Impact versus Deprivation." NBER Working Paper 30139

Ida, Takanori, Takunori Ishikara, Koichiro Ito, Daido Kido, Toru Kitagawa, Shooshei Sakaguchi and Shasuaku Sasaki. 2023. "Choosing Who Chooses: Selection-Driven Targeting in Energy Rebate Programs. NBER Working Paper 30469.

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Week 14: Procurement and Wrap Up

December 9 Government procurement (Hendren)

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December 11: Wrap-up lecture (Finkelstein and Hendren)

