

Public Finance I
Government Expenditure and Social Insurance
Mark Duggan, Autumn 2005

Meetings: The course will meet Mondays and Wednesdays from 9:30 – 10:45AM.

Course requirements: In addition to participating in class and reading the assigned papers (approximately three per week), there are three sets of requirements for this course. The first is a mock referee report that will be due in mid-October. The second set consists of problem sets, of which there will probably be two. The final requirement is the final exam that will take place at the end of the semester. The point allocation across these three is roughly 25%, 25%, and 50%, respectively.

Office Hours: Mondays and Wednesdays from 11AM – Noon or by appointment.
You can email me at duggan@econ.umd.edu to set up a time.

Useful texts

A. Auerbach and M. Feldstein, *Handbook of Public Economics*: Volumes 3 and 4 (Amsterdam: North-Holland, 2003).

Committee on Ways and Means, *Overview of Entitlement Programs* (“Green Book”) – 2004 edition available at <http://waysandmeans.house.gov/Documents.asp?section=813>

1. Social Insurance Theory

George Akerlof, “The Market for Lemons,” *Quarterly Journal of Economics* 85 (1970), 488-500.

A.B. Atkinson, “Income Maintenance and Social Insurance,” in A. Auerbach and M. Feldstein, eds., *Handbook of Public Economics* Volume 2 (Amsterdam: North Holland, 1987), 779-908.

Michael Rothschild and Joseph Stiglitz, “Equilibrium in Competitive Insurance Markets,” *Quarterly Journal of Economics* 91 (1976), 629-649.

Charles Wilson, “The Nature of Equilibrium in Markets with Adverse Selection,” *Bell Journal of Economics*, (Spring 1980), 108-130.

2. Social Security

2.1 Theoretical Models and Motivation

John Cawley and Tomas Philipson, “An Empirical Examination of Information Barriers to Trade in Insurance,” *American Economic Review* 89 (1999), 827-846.

Peter Diamond, “A Framework for Social Security Analysis,” *Journal of Public Economics* 8 (1977), 275-298.

Peter Diamond and James Mirrlees, “A Model of Social Insurance with Variable Retirement,” *Journal of Public Economics*, 10 (1978), 295-336.

Peter Diamond and James Mirrlees, “Payroll-Tax Financed Social Security with Variable Retirement,” *Scandinavian Journal of Economics*, 88 (1986), 25-50.

Z. Eckstein, M. Eichenbaum, D. Peled, "Uncertain Lifetimes and the Welfare Enhancing Properties of Annuity Markets and Social Security," *Journal of Public Economics* 26 (1985), 303-326.

Martin Feldstein, "The Optimal Level of Social Security Benefits," *Quarterly Journal of Economics* 100 (May 1985), 300-320.

Martin Feldstein, "Should Social Security Be Means Tested?" *Journal of Political Economy* 95 (1987), 468-484.

Amy Finkelstein and James Poterba, "Adverse Selection in Insurance Markets: Policyholder Evidence from the U.K. Annuity Market," *Journal of Political Economy*. 112 (2004), 183-208.

Alan Gustman and Thomas Steinmeier, "How Effective is Redistribution Under the Social Security Benefit Formula?" *Journal of Public Economics* (2001), 1-28.

Glenn Hubbard and Kenneth Judd, "Social Security and Individual Welfare: Precautionary Saving, Borrowing Constraints, and the Payroll Tax," *American Economic Review*, (September 1987), 630-646.

2.2 Social Security and Private Saving

Doug Bernheim, Jon Skinner, and S. Weinberg, "What Accounts for the Variation in Retirement Wealth Among U.S. Households?" *American Economic Review* 91 (2001), 832-857.

Doug Bernheim, "The Economic Effects of Social Security: Toward a Reconciliation of Theory and Measurement," *Journal of Public Economics*, 33 (1987), 273-304.

Banks, Blundell, and Tanner, "Is There a Retirement Savings Puzzle?" *American Economic Review* 88 (1998), 769-788.

Peter Diamond and Jerry Hausman, "Individual Retirement and Savings Behavior," *Journal of Public Economics* 23 (1984), 81-114.

Martin Feldstein, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," *Journal of Political Economy* 82 (1974), 905-926.

Martin Feldstein, "Social Security and Private Saving: Reply," *Journal of Political Economy* 90 (1982), 630-642.

Daniel Hamermesh, "Consumption during Retirement: The Missing Link in the Life-Cycle Hypothesis," *Review of Economics and Statistics* 66 (1984), 1-7.

Michael Hurd, "Research on the Elderly: Economic Studies, Retirement, and Consumption and Saving," *Journal of Economic Literature* 28 (June 1990), 565-637.

Laurence Kotlikoff and Avia Spivak, "The Family as an Incomplete Annuities Market," *Journal of Political Economy* 89: 372-391.

Laurence Kotlikoff, Avia Spivak, and Lawrence Summers, "The Adequacy of Savings," *American Economic Review*, 72 (1982) 1056-1069.

D. Leimer and S. Lesnoy, "Social Security and Private Saving: New Time-Series Evidence," *Journal of Political Economy* 90 (1982), 606-629.

K. Scholz, A. Seshadri, and S. Khitatrakun, "Are Americans Saving Optimally for Retirement?" forthcoming in the *Journal of Political Economy*.

2.3 Social Security and Labor Supply

Gary Burtless, "Social Security, Unanticipated Benefit Increases, and the Timing of Retirement," *Review of Economic Studies* (1986), 781-805.

Courtney Coile and Jonathan Gruber, "Social Security Incentives for Retirement," (2000) *NBER Working Paper 7651*.

Jon Gruber and David Wise, "Social Security Programs and Retirement Around the World," *NBER Working Paper 6134*.

Alan Gustman and Thomas Steinmeier, "The Social Security Early Entitlement Age in a Structural Model of Retirement and Wealth," forthcoming in the *Journal of Public Economics*.

Michael Hurd and Michael Boskin, "The Effect of Social Security on Retirement in the 1970s," *Quarterly Journal of Economics*, 99 (November 1984), 767-790.

Martin Feldstein and Andrew Samwick, "Social Security Rules and Marginal Tax Rates," *National Tax Journal* 65 (1992), 1-22.

Alan Krueger and Jorn-Steffen Pischke, "The Effect of Social Security on Labor Supply: A Cohort Analysis of the Notch Generation," *Journal of Labor Economics* 10 (1992), 412-437.

John Rust and Christopher Phelan, "How Social Security and Medicare Affect Retirement Behavior in a World of Incomplete Markets," *Econometrica* 65 (July 1997), 781-832.

Andrew Samwick, "New Evidence on Pensions, Social Security, and the Timing of Retirement," *Journal of Public Economics* (1998) 207-236.

James Stock and David Wise, "Pensions, the Option Value of Work, and Retirement," *Econometrica* 58 (1990), 1151-1180.

2.4 Social Security Reform

Andrew Abel, "The Effects of Investing Social Security Funds in the Stock Market when Fixed Costs Prevent Some Households from Holding Stocks," *American Economic Review* March, 2001, 128-148.

David Cutler, James Poterba, Louise Sheiner, and Lawrence Summers, "An Aging Society: Challenge or Opportunity?" *Brookings Papers on Economic Activity* 1990: 1, 1-73.

Peter Diamond, "Macroeconomic Aspects of Social Security Reform," *Brookings Papers on Economic Activity* 1997:2, 1-87.

Peter Diamond, "Privatization of Social Security: Lessons from Chile," *Revista de Analisis Economico* 9 (1994), 21-33.

Martin Feldstein, “Would Privatizing Social Security Raise Economic Welfare?” NBER Working Paper 5281 in Martin Feldstein, ed., *Privatizing Social Security*, Chicago: University of Chicago Press, 1998.

Martin Feldstein, ed., *Privatizing Social Security*. Chicago: University of Chicago Press, 1998.

Martin Feldstein, “The Missing Piece in Policy Analysis: Social Security Reform,” *American Economic Review* (May 1996), 1-14.

Martin Feldstein and Andrew Samwick, “The Economics of Prefunding Social Security and Medicare Benefits,” *NBER Macroeconomics Annual*, 1997.

Martin Feldstein, “Social Security Reform in China,” *NBER Working Paper 6794*. Also in *China Economic Review* 10 (1999).

Karen Holden and Cathleen Zick, “Insuring Against the Consequences of Widowhood in a Reformed Social Security System,” in *Framing the Social Security Debate: Values, Politics, Economics*.

National Academy on Social Insurance, *Evaluating Issues in Privatizing Social Security*. Washington, D.C. NASI, 1998. Also available from MIT Press.

Kent Smetters, “Is the Social Security Trust Fund Worth Anything?” *American Economic Review Papers and Proceedings*, May, 2004.

3. Unemployment Insurance

Daron Acemoglu and Robert Shimer, “Efficient Unemployment Insurance,” *Journal of Political Economy* 107 (1999), 893-928.

Patricia Anderson and Bruce Meyer, “Unemployment Insurance Takeup Rates and the After-Tax Value of Benefits,” *Quarterly Journal of Economics* 112 (1997), 913-938.

Martin Feldstein and James Poterba, “Unemployment Insurance and Reservation Wages,” *Journal of Public Economics* 23 (1984), 141-167.

Martin Feldstein, “The Effect of Unemployment Insurance on Temporary Layoff Unemployment,” *American Economic Review* 65 (December, 1978), 834-846.

Martin Feldstein, “Temporary Layoffs in the Theory of Unemployment,” *Journal of Political Economy* 84 (October 1976), 937-958.

Larry Katz and Bruce Meyer, “The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment,” *Journal of Public Economics* 41 (1990), 45-72.

Alan Krueger and Bruce Meyer, “Labor Supply Effects of Social Insurance,” *Handbook of Public Economics* Volume 4 (2002) 2334-2355.

Bruce Meyer, “Unemployment Insurance and Unemployment Spells,” *Econometrica* 58 (July 1990), 757-782.

Steven Shavell and Laurence Weiss, "The Optimal Payment of Unemployment Insurance Benefits Over Time," *Journal of Political Economy* 87 (1979), 1347-1362.

Robert Topel, "On Layoffs and Unemployment Insurance," *American Economic Review* 73 (1983), 541-559.

4. Disability Insurance and Workers' Compensation

David Autor and Mark Duggan, "The Rise in the Disability Rolls and the Decline in Unemployment," *Quarterly Journal of Economics*, February 2003.

John Bound, "The Health and Earnings of Rejected Disability Insurance Applicants," *American Economic Review* 79 (1989), 482-503.

John Bound, "The Health and Earnings of Rejected Disability Insurance Applicants: Reply," *American Economic Review* 81 (1991), 1427-1434.

John Bound, Julie Cullen, Austin Nichols, and Lucie Schmidt "The Welfare Implications of Increasing DI Benefit Generosity," *Journal of Public Economics* 88 (December, 2004) 2487-2514.

Peter Diamond and E. Sheshinski, "Economic Aspects of Optimal Disability Benefits," *Journal of Public Economics* 57 (1995), 1-24.

P. Fishback and S. Kantor, "Did Workers Pay for the Passage of Workers Compensation Laws?" *Quarterly Journal of Economics* 110 (1995), 713-742.

Jon Gruber, "Disability Insurance Benefits and Labor Supply," *Journal of Political Economy* 108 (2000), 1162-1183.

Janice Halpern and Jerry Hausman, "Choice under Uncertainty: A Model of Applications for the Social Security Disability Program," *Journal of Public Economics* 31 (1986), 131-162.

Alan Krueger and Bruce Meyer, "Labor Supply Effects of Social Insurance," *Handbook of Public Economics* Volume 4 (2002) 2356-2365 and 2379-2384.

Bruce Meyer, Kip Viscusi, and D. Durbin, "Workers' Compensation and Injury Duration: Evidence from a Natural Experiment," *American Economic Review* 85 (June 1995), 322-340.

Don Parsons, "The Health and Earnings of Rejected Disability Insurance Applicants: Comment," *American Economic Review* 81 (1991), 1419-1426.

Don Parsons, "The Decline of Male Labor Force Participation," *Journal of Political Economy* 88 (February 1980), 117-134.

Don Parsons, "Self-Screening in Targeted Public Transfer Programs," *Journal of Political Economy* 99 (1991) 859-876.

5. Welfare Policy – See Attached

6. Government Intervention in Health Insurance Markets

6.1 Overview

Ken Arrow, "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review* 53 (1963), 941-973.

David Cutler, "Health Care and the Public Sector," in A. Auerbach and M. Feldstein, eds., *Handbook of Public Economics* Volume 4 (Elsevier, 2002), 2143-2243.

Peter Diamond, "Organizing the Health Insurance Market," *Econometrica* 60 (1992), 1233-1254.

Joseph Newhouse, "Medical Care Costs: How Much Welfare Loss?" *Journal of Economic Perspectives* 6 (1992), 3-21.

6.2 Health Insurance and Moral Hazard

Martin Feldstein, "The Welfare Loss of Excess Health Insurance," *Journal of Political Economy* 81 (1973), 251-280.

R. Feldman and B. Dowd, "A New Estimate of the Welfare Loss of Excess Health Insurance," *American Economic Review* 81 (1991), 297-301.

Jon Gruber and Jim Poterba, "Taxation and the Demand for Health Insurance: The Case of the Self-Employed," *Quarterly Journal of Economics* 109 (1994), 701-733.

W. Jack and Louise Sheiner, "Welfare Improving Health Expenditure Subsidies," *American Economic Review* (1997), 206-221.

Will Manning, et al, "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment," *American Economic Review* 77 (1987), 251-277.

Mark Pauly, "The Rational Non-Purchase of Long-Term Care Insurance," *Journal of Political Economy* 98 (1990): 153-168.

Mark Pauly, "Taxation, Health Insurance, and Market Failure in the Medical Economy," *Journal of Economic Literature* 24 (1986), 629-675.

6.3 Private Insurance Market Issues

Laurence Baker, "The Effect of HMOs on Fee-For-Service Health Care Expenditures: Evidence from Medicare," *Journal of Health Economics* (1997).

John Cochrane, "Time Consistent Health Insurance," *Journal of Political Economy* 103 (1995), 445-473.

David Cutler, Mark McClellan, and Joe Newhouse, "How Does Managed Care Do It?" *RAND Journal of Economics*, Autumn 2000, 526-548.

David Cutler and Sarah Reber, "Paying for Health Insurance: The Trade-off Between Competition and Adverse Selection," *Quarterly Journal of Economics* 113 (1998), 433-466.

Joseph Newhouse, "Reimbursing Health Plans and Health Providers: Selection versus Efficiency in Production," *Journal of Economic Literature* 34 (1996), 1236-1263.

6.4 Health Insurance and the Labor Market

Jon Gruber, "The Incidence of Mandated Maternity Benefits," *American Economic Review* 84 (1994), 622-641.

Alan Gustman and Thomas Steinmeier, "Employer Provided Health Insurance and Retirement Behavior," *Industrial and Labor Relations Review*, 48 (1994) 124-140.

Brigitte Madrian, "Employment-Based Health Insurance and Job Mobility: Is There Evidence of Job Lock?" *Quarterly Journal of Economics* 109 (1994), 27-54.

Robert Moffitt and Barbara Wolfe, "The Effect of the Medicaid Program on Welfare Participation and Labor Supply," *Review of Economics and Statistics* 74 (1992), 615-626.

Lawrence Summers, "Some Simple Economics of Mandated Benefits," *AEA Papers and Proceedings* 79 (1989), 177-183.

Aaron Yelowitz, "The Medicaid Notch, Labor Supply, and Welfare Participation: Evidence from Eligibility Expansions," *Quarterly Journal of Economics* 105 (1995), 909-940.

6.5 Medicaid and the Uninsured

Janet Currie and Jon Gruber, "Saving Babies: The Efficacy and Cost of Recent Changes in the Medicaid Eligibility of Pregnant Women," *Journal of Political Economy* 104 (1996), 1263-1296.

David Cutler and Jon Gruber, "Does Public Insurance Crowd Out Private Insurance?" *Quarterly Journal of Economics* 111 (1996), 391-430.

Joseph Doyle, "Does Health Insurance Affect Treatment Decisions and Patient Outcomes? Using Automobile Accidents as Unexpected Health Shocks," MIT mimeo, 2002.

Mark Duggan, "Hospital Ownership and Public Medical Spending," *Quarterly Journal of Economics* 115 (2000), 1343-1374.

Mark Duggan, "Does Contracting Out Increase the Efficiency of Government Programs? Evidence from Medicaid HMOs," *Journal of Public Economics* 88 (December, 2004) 2549-2572.

Jon Gruber, "The Effect of Financial Pressure on Charity: Hospital Responses to Price Shopping in California," *Journal of Health Economics* 13 (1994), 183-212.

6.6 Medicare and Supplier Issues

David Cutler, "The Incidence of Adverse Medical Outcomes Under Prospective Payment," *Econometrica* 63 (1995), 29-50.

Leemore Dafny, "How Do Hospitals Respond to Price Changes?" forthcoming in the *American Economic Review*.

David Dranove, Daniel Kessler, Mark McClellan, and Mark Satterthwaite, "Is More Information Better? The Effects of 'Report Cards' on Health Care Providers," *Journal of Political Economy* 111 (2003) 555-588.

Mark Duggan and Fiona Scott-Morton, "The Effect of Health Insurance on Pharmaceutical Pricing: Evidence for the Medicaid Program," forthcoming in the *Quarterly Journal of Economics*.

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Amy Finkelstein, "Minimum Standards and Insurance Regulation: Evidence from the Medigap Market," *Journal of Public Economics* 88 (December 2004).

Amy Finkelstein, "Static and Dynamic Effects of Health Policy: Evidence from the Vaccine Industry," *Quarterly Journal of Economics* 119 (May 2004) 527-564.

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Mark McClellan, "Medicare Reform: Fundamental Problems, Incremental Steps," *Journal of Economic Perspectives*, Spring 2000.

6.7 The Costs and Benefits of New Health Care Treatments

David Cutler, Mark McClellan, Joe Newhouse, Dahlia Remler, "Are Medical Prices Declining?" *Quarterly Journal of Economics* 113 (1998), 991-1024.

Mark Duggan, "Does Medicaid Pay Too Much for Prescription Drugs? The Case of Second-Generation Antipsychotics" forthcoming in the *Journal of Health Economics*, 2005.

Mark McClellan, Barbara McNeil, and Joseph Newhouse, "Does More Intensive Treatment of Acute Myocardial Infarction Reduce Mortality?" *Journal of the American Medical Association* 859-866, September 1994.

7. State and Local Public Finance

Tim Besley and Stephen Coate, "Centralized versus Decentralized Provision of Local Public Goods: A Political Economy Analysis" forthcoming in the *Journal of Public Economics*.

Truman Bewely, "A Critique of Tiebout's Pure Theory of Local Public Expenditures" *Econometrica* 1982, 713-737.

David Bradford and Wallace Oates, "Towards a Predictive Theory of Intergovernmental Grants" *American Economic Review* 6 (1971).

Dennis Epple and Holger Sieg, "Estimating Equilibrium Models of Local Jurisdictions" *Journal of Political Economy* 107 (1999) 645-681.

Nora Gordon, "Do Federal Grants Boost School Spending? Evidence from Title I" *Journal of Public Economics* 88 (2004), 1771-1792.

James Hines and Richard Thaler, "Anomalies: The Flypaper Effect" *Journal of Economic Perspectives* 1995.

Caroline Hoxby, "Does Competition Between Public Schools Benefit Students and Taxpayers?" *American Economic Review* 90 (2000), 1209-1238.

Robert Inman and Daniel Rubinfeld, "Rethinking Federalism" *Journal of Economic Perspectives* 1997.

Brian Knight, "Endogenous Federal Grants and Crowd-out of State Government Spending: Theory and Evidence from the Federal Highway Program" *American Economic Review* 92 (2002), 71-92.

Robert Moffitt, "The Effects of Grants in Aid on State and Local Expenditures: The Case of AFDC," *Journal of Public Economics* 23 (1984), 279-305.

Thomas Nechyba, "Local Property and State Income Taxes: The Role of Interjurisdictional Competition and Collusion," *Journal of Political Economy* 105 (1997), 351-384.

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Wallace Oates and Robert Schwab, "Economic Competition Among Jurisdictions: Efficiency Enhancing or Distortion-Inducing?" *Journal of Public Economics* (1988), 333-354.

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Charles Tiebout. "A Pure Theory of Local Public Expenditures," *Journal of Political Economy*, 1956, 416-424.

8. Publicly Provided Goods: Education

Eric Hanushek, "Publicly Provided Education," *Handbook of Public Economics* Vol 4 (2002) 2045-2141.

8.1 School Inputs and Educational Attainment

Josh Angrist and Alan Krueger, "Does Compulsory School Attendance Affect Schooling and Earnings?" *Quarterly Journal of Economics* 106 (1991), 979-1014.

David Card and Alan Krueger, "Does School Quality Matter? Returns to Education and the Characteristics of Public Schools in the United States," *Journal of Political Economy* 100 (1992), 1-40.

Esther Duflo, "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment," *American Economic Review* 91 (2001), 795-813.

Caroline Hoxby, "How Teachers' Unions Affect Education Production," *Quarterly Journal of Economics* 111 (1996), 671-718.

Eric Hanushek, "The Economics of Schooling: Production and Efficiency in Public Schools," *Journal of Economic Literature* 24 (1986), 1141-1177.

Brian Jacob and Lars Lefgren, "Remedial Education and Student Achievement: A Regression-Discontinuity Analysis," *Review of Economics and Statistics* 86 (February 2004) 226-244.

8.2 Competition, School Choice, and Vouchers

Joshua Angrist, Eric Bettinger, Erik Bloom, Elizabeth King, Michael Kremer, "Vouchers for Private Schooling in Columbia: Evidence from a Randomized Natural Experiment," *American Economic Review*, December, 2002.

Julie Berry Cullen, Brian Jacob, and Steven Levitt, "The Impact of School Choice on Student Outcomes: An Analysis of the Chicago Public Schools," forthcoming in the *Journal of Public Economics*.

Dennis Epple and Richard Romano, "Competition between Private and Public Schools, Vouchers, and Peer Group Effects," *American Economic Review* 88 (1998), 33-62.

Raquel Fernandez and Richard Rogerson, "Income Distribution, Communities, and the Quality of Public Education," *Quarterly Journal of Economics* 111 (1996), 135-164.

Brian Jacob, "Public Housing, Housing Vouchers, and Student Achievement: Evidence from Public Housing Demolitions in Chicago," *American Economic Review* 94 (March 2004), 233-258.

8.3 Educational Subsidies

Sue Dynarski, "Does Aid Matter? Measuring the Effect of Student Aid on College Attendance and Completion," *American Economic Review*, (2003), 279-288.

Martin Feldstein, "College Scholarship Rules and Private Saving," *American Economic Review* 85 (1995), 552-566.

Raquel Fernandez and Richard Rogerson, "On the Political Economy of Education Subsidies," *Review of Economic Studies* 62 (1995), 249-262.

Philip Ganderton, "The Effect of Subsidies-in-Kind on the Choice of a College," *Journal of Public Economics* 48 (1992), 269-292.

Rod Garratt and John Marshall, "Public Finance of Private Goods: The Case of College Education," *Journal of Political Economy* 102 (1994), 566-582.

Michael McPherson and Morton Shapiro, "Does Student Aid Affect College Enrollment? New Evidence on a Persistent Controversy," *American Economic Review* 81 (1991), 309-318.

Sam Peltzman, "The Effect of Government Subsidies-in-Kind on Private Expenditures: The Case of Higher Education," *Journal of Political Economy* 81 (1973), 1-27.

Jon Sonstelie, "The Welfare Costs of Free Public Schools," *Journal of Political Economy* 90 (1982), 794-808.