PA 5022: Microeconomics for Public Affairs and Planning II
Economics of Social Insurance Programs

Meeting Times:
Tuesday Thursday 11:15-12:30, Humphrey 184

Instructor:
Maria Hanratty 251 Humphrey Center, hanra003@umn.edu, 625-6500
Office Hours: T 1:00-2:00 or by appointment

Teaching Assistant
Dylan Adams
adam1155@umn.edu
Office hours: W 3:00-5:00 or by appointment

Course Description:
Welcome to Microeconomics for Public Affairs and Planning II. This course has two goals. First, it covers additional topics not covered under PA5021, such as information economics, decision-making under uncertainty, and decision-making over time. Second, it applies microeconomic tools developed in PA5021 to current public policy problems.

This class will introduce you to the Economics of Social Insurance Programs. It begins by introducing a framework to evaluate the efficiency and equity of social insurance programs. It then applies this framework to health insurance, unemployment insurance, social security, workers’ compensation and disability insurance, Supplemental Nutritional Assistance, and the Earned income Tax Credit.

Students in this module will learn to:
● understand and critique the main economic rationales for current social insurance programs,
● understand trade-offs in the design of social insurance programs between providing risk protection and promoting efficient efforts to avoid losses,
● read and evaluate current empirical research on the impacts of social insurance programs
● construct written and oral arguments for specific policy reforms
Prerequisites:
The material is designed to build on the microeconomic foundations of the first year micro course at the Humphrey School (PA 5021). Students who have not completed these courses should see me before taking the class.

Course Requirements:
1) Class Attendance + Participation:
   It is important that you attend each class and make an effort to participate constructively in class discussion. Repeated absences from classes can have a negative effect on your overall grade.

2) Problem Sets (15%)
   I will assign three problem sets that cover the material in the first part of the class. You may work in groups on these problem sets, but you must write up the answers in your own. You will receive a grade of check, check minus, or check plus for these problem sets.

3) In-Class Quiz (25%)
   There will be an in-class quiz covering the material in the first part of the class.

4) In-Class Presentations:
   You will be asked to work in a group to lead class discussion of a current policy reform proposal in the areas of health insurance, unemployment insurance, welfare reform, and social security reform. These presentations will not be graded, but will help guide you in writing your policy memos. Failure to complete one of these presentations can have a negative impact on your grade.

5) Short policy memos (40%)
   You will write two short policy memos that present an argument for or against one of the proposals discussed in class. Each memo must be 3-5 pages, double spaced.
   Memo 1 will cover health insurance reforms.
   Memo 2 will cover unemployment insurance, social security, SNAP, EITC or disability insurance reforms.

6) Final Group Projects (20%)
   This project will allow you to work on a policy of your choice in a group of 2-4 students. You will select a policy in the area of social insurance reforms, and develop an analysis. You will be asked to present your findings in class during the last two weeks of class.
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<th>Assignment</th>
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<td>Problem Set 1</td>
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<td>Problem Set 4</td>
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<td>Quiz</td>
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<td>email <a href="mailto:hanra003@umn.edu">hanra003@umn.edu</a></td>
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**Required/ Recommended Texts:**

We will be drawing substantially from the following text.


**Course Outline:**

Following is a tentative outline of the topics we will cover in class. This outline is something of a work in progress, and may be modified to meet the needs of the class. The most up to date version of reading assignments will be on the class web site. Dates of assignments/quiz will not be changed without consent of class.

Readings indicated by a * are required readings.

1. **Introduction to Course Concepts: January 16**

   *Gruber, Chapter 12


   Jacob S Hacker, Bigger and Better, The American Prospect, April 19 2005

   Martin Feldstein, “Rethinking Social Insurance,” AER March 2005
2. Economic Model of Social Insurance

A. Expected Utility Model and the Demand for Health Insurance: January 18, 23

*Gruber, Chapter 12


B. Moral Hazard: January 25, 30

*John Nyman, Theory of the Demand for Health Insurance Chapters 2 & 3

C. Adverse Selection: February 1, 6


3. Behavioral Models of Choices under Uncertainty & over time: Feb 8, 13, 15

*Richard H Thaler and Cass R Sunnstein, Nudge, Yale University Press, 2008, Chapters 1-2

*Daniel Kahneman, Thinking Fast and Slow, Farrer, Straus and Giroux, 2011, pages 270-321


In-Class Quiz February 20 (covers sections 1-3)

4. Health Insurance

A. Health Insurance and Health Care Demand: February 22

*Gruber, chapter 15: Health Insurance I: Health Economics and Private Health

*Newhouse et al., Free for All, 1993, p. 3-51, 338-345


B. Health Insurance Expansions: February 27

*Gruber, Chapter 16: Medicare, Medicaid and Health Care Reform

*Laura R. Wherry, PhD; Genevieve M. Kenney, PhD; Benjamin D. Sommers The Role of Public Health Insurance in Reducing Child Poverty, Academic Pediatrics, 2016:16


C. “Bending the Cost Curve”: Health Care Policy Reforms: March 1

*Alice Chen, Dana Goldman, Health Care Spending: Historical Trends and New Directions, NBER Working Paper No. 2150, August 2015


*Robert A. Berenson and Elizabeth Docteur, Doing Better by Doing Less: Approaches to Tackle Overuse of Services, Urban Institute, January 2013


*Billy Wynne, For Medicare’s New Approach To Physician Payment, Big Questions Remain, Health Affairs, September 2016 35:1643-1646

Steve Maas, The Impact of High Deductibles on Health Care Spending, NBER Digest December 2015

Linda Gorman, Consumer Directed Plans Reduce Spending, NBER Digest, July 2015

D. Student Presentations on Health Care Reform: 3/6, 3/8

March 13, 15 SPRING BREAK
5. **Unemployment Insurance and Unemployment Insurance Reform:**

March 20, 22

*Gruber, Chapter 14


**A. Consumption Smoothing: March 20**


**B. Moral Hazard and Optimal Unemployment Insurance: March 22**


**C. Student Presentations on UI Policy Reforms: March 27**

6. A. **Social Security and Social Security Reforms:** March 29, April 3

* Gruber chapter 13:


James J. Choi David Laibson Brigitte C. Madrian Andrew Metrick, Saving For Retirement on the Path of Least Resistance July 19, 2004

Katherine Abraham, Benjamin Harris, Better Financial Security in Retirement: Realizing the Promise of Longevity Annuities, Brookings 2014
Brown et al, Framing Lifetime Income, NBER WP 19063 May 2013

Brown et al, Are cognitive barriers a barrier to annuitization, Center for Retirement Research March 2015

Jonathan Gruber and David Wise, Social Security & Retirement Programs Around the World, NBER 6134 WP, 1997

Rohwedder, Mental Retirement, Journal of Economic Perspectives, Winter 2010

B. **Student Presentations on Social Security Reforms: April 5**

7. **Social Assistance Programs**

   A. **Earned Income Tax Credit: April 10**

   Nichols and Rothstein, Earned Income Tax Credit, NBER WP 21211


   Center on Budget and Policy Priorities, EITC and Child Tax Credits Promote Work, Reduce Poverty and Support Children’s Development, 2015

B. **Student Presentations on Food Support & Food Support Reforms: April 12**

8. **Workers Compensation & Workplace Safety: April 17**

   *Gruber, Chapter 14


9. Disability Insurance: April 19


Jeffrey B. Liebman and Jack A. Smalligan, “An Evidence-Based Path to Disability Insurance Reform, Brookings Institution, February 26, 2013


10. Final Presentations: April 24 April 26, May 1, May 3

Final Group Paper Due May 11