

Hubert Humphrey Institute of Public Affairs
Spring 2018

**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:

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Office Hours: T 1:00-2:00 or by appointment

Teaching Assistant

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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.

Assignment	Due Date	Where
Problem Set 1	1/26/2018	
Problem Set 2	2/02/2018	
Problem Set 3	2/09/2018	
Problem Set 4	2/16/2018	
Quiz	2/20/2018	In class
Memo 1	3/23/2018	email hanra003@umn.edu
Memo 2	4/20/2018	email hanra003@umn.edu
Class Presentations	4/24,4/26,5/1,5/3	In-class
Final Group Papers	5/11/2018	email hanra003@umn.edu

Required/ Recommended Texts:

We will be drawing substantially from the following text.

Jonathan Gruber, Public Finance and Public Policy, Worth Publishers, Fifth Edition, 2016

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

*Martin Feldstein "Seven Principles of Social Insurance." *Challenge* (November 1976).

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

*Jeffrey Perloff, *Microeconomics: Theory and Applications with Calculus*, Third Edition, Chapter 16.1-16.2, pages 563-577

B. Moral Hazard: January 25, 30

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

C. Adverse Selection: February 1, 6

David Cutler and Sarah Reber: *Paying for Health Insurance: the Trade-off Between Competition and Adverse Selection*, *Quarterly Journal of Economics*, May 1998

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

Brigitte Madrian, *Applying Insights from Policy Design to Behavioral Economics*, NBER Working Paper 20318, July 2014

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

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

Aviva Aron-Dine, Liran Einav, and Amy Finkelstein, *The Rand Health Insurance Experiment Thirty Years Later* File resource *Journal of Economic Perspectives*—Volume 27, Number 1—Winter 2013—Pages 197–222

Finkelstein, Amy (2007). "The Aggregate Effects of Health Insurance: Evidence from the Introduction of Medicare", *Quarterly Journal of Economics*

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

*The Oregon Health Study, National Bureau of Economic Research, Home, page Background page and Results page, <https://www.nber.org/oregon/1.home.html>

Jonathan Gruber and Simon Kosali, "Crowd-Out Ten Years Later: Have Recent Public Expansions Crowded Out Private Insurance?" National Bureau of Economic Research Working Paper 12858, January 2007

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

*Kevin Quealy and Margot Sanger-Katz, The Experts Were Wrong About the Best Places for Better and Cheaper Health Care, *New York Times*, December 15, 2015

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

McClellan, Mark 2011. "Reforming Payments to Healthcare Providers: The Key to Slowing Healthcare Cost Growth While Improving Quality?" *Journal of Economic Perspectives*, 25(2): 69–92, Spring 2011

*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

Katherine Baicker, Claudia Goldin, and Larry Katz (1998). "A Distinctive System: Origins and Impact of U.S. Unemployment Compensation", in *The Defining Moment: The Great Depression and the American Economy*, University of Chicago Press, 1998 (NBER Working Paper No. 5889).

A. Consumption Smoothing: March 20

* J. Gruber, "The Consumption Smoothing Benefits of Unemployment Insurance," *American Economic Review* 87, 192-205.

* Chetty Raj, Looney Adam. 2005, "Income risk and the benefits of social insurance: evidence from Indonesia and the United States," NBER working paper 11708 [Read Empirical Section Only]

B. Moral Hazard and Optimal Unemployment Insurance: March 22

*Chetty R. 2008. Moral hazard vs. liquidity and optimal unemployment insurance. *J. Polit. Econ.* 116(2):173–234

B. Meyer, "Unemployment Insurance and Unemployment Spells," *Econometrica* 58 (July 1990):757-782

David Card, Andrew Johnston, Pauline Leung, Alexandre Mas Zhuan Pei, "The Effect of Unemployment Benefits on the Duration of Unemployment Insurance Receipt: New Evidence from a Regression Kink Design in Missouri, 2003-2013," NBER Working Paper 20869, January 2015

C. Student Presentations on UI Policy Reforms: March 27

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

* Gruber chapter 13:

Gary Burtless, "Do Private Saving Schemes Offer Plausible Substitute for Public Pensions, Lessons from the Economic Crisis," 2011

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

Nada Eissa and Hillary Hoynes, "Behavioral Responses to Taxes: Lessons From the EITC and Labor Supply," National Bureau of Economic Research Working Paper 11729, November 2005

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

*Price V. Fishback and Shawn Everett Kantor, A Prelude to the Welfare State: The Origins of Workers' Compensation, NBER Series on Long-Term Factors in Economic Development. Chicago and London: University of Chicago Press, 2000, Chapters 1, 3

*Richard J Butler and John Worrall, Wage and Injury Response to Shifts in Workplace Liability, Industrial and Labor Relations Review, 61(2) January 2008

David Card and Brian P. McCall, Is Workers' Compensation Covering Uninsured Medical Costs? Evidence from the "Monday Effect" Industrial and Labor Relations Review, Vol. 49, No. 4 (Jul., 1996), pp. 690-706

Meyer, Viscusi and Durbin, Workers Compensation and Injury Duration: Evidence from a Natural Experiment, AER, 85(3), 1995, 332-340

Claims-Shifting: The Problem of Parallel Reimbursement Regimes Olesya Fomenko, Jonathan Gruber NBER Working Paper No. 22318 Issued in June 2016 NBER Program(s): AG HC HE PE

9. Disability Insurance: April 19

* Jeffrey Liebman, 2015. "Understanding the Increase in Disability Insurance Benefit Receipt in the United States." *Journal of Economic Perspectives*, 29(2): 123-50.

* David Autor and Mark Duggan "Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System," Brookings Institution, The Hamilton Project, 2010

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

Jeff Guo, "What happens when you take away disability benefits from kids and their parents," *Washington Post*, 12/16/14.

AUDIO: This American Life "Trends with Benefits"
<https://www.thisamericanlife.org/490/trends-with-benefits>

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

Final Group Paper Due May 11