

Northwestern

SCHOOL OF EDUCATION AND SOCIAL POLICY

Master of Science in  
Social and Economic Policy

## Economics of Public Policy

Northwestern University Dual Master's Degree Program  
Master of Science in Social and Economic Policy

**Location: Kresge Hall, 2415**

Time: Tuesdays-Thursdays 1-2:20pm

First class: June 18, 2024

Last class: August 22, 2024

**Lecturer: Alexis Orellana**

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Office: Annenberg Hall, 230

Office hours: Thursdays 3:30-5:00pm. Please use the following [link](#) to sign up in advance. If you want to discuss something specific, drop me an email ahead of time (i.e., before Thursday morning) with details.

**Teaching assistant: Pedro Aldighieri**

E-mail: [pedro.aldighieri@u.northwestern.edu](mailto:pedro.aldighieri@u.northwestern.edu)

Office Hours: TBA

**Course Description**

The purpose of this course is to think about the rationale, implementation, and consequences of public policies through an economic lens. We will explore the basic microeconomic foundations of individual decision-making and market failures which rationalize the intervention of the government to correct some of these failures. We will focus on the efficiency and equity consequences of resource allocation, regulation, and other policy interventions.

My goal is that at the end of the course, you: (1) will have a good understanding of the theoretical framework that justifies government involvement in the economy, (2) will be able to conduct rigorous policy analysis and communicate it effectively to different audiences, and (3) will learn to critically assess economic analyses conducted by others. Being a critical consumer and producer of economic analysis is a key asset that will serve you in any future role as a policy analyst, business analyst, researcher, policymaker, or citizen.

Policy analysis involves positive and normative aspects. Even when presented with the same

facts, people can have different opinions about the best policy responses to particular contexts. Indeed, that is one factor that makes policy so interesting to study. The purpose of the class is to help you how to think, not what to think. Therefore, you will be evaluated on your reasoning and clarity of analysis, not on the position you take.

### **Prerequisites**

I assume familiarity with the concepts taught in Microeconomic Analysis (ECON 5012), Econometric Analysis (ECON 5122), and Causal Methods for Evaluating Policy (SE POL 400).

There is no required textbook for this class, but the following can serve as useful references:

- Angrist and Pischke: *Mostly Harmless Econometrics: An Empiricist's Companion*. Princeton University Press
- An intermediate Microeconomics textbook

### **Website**

<https://canvas.northwestern.edu/courses/214074>

### **Evaluation Methods and Criteria**

This is a graduate-level course. As such, I expect students to be interested in the material presented, to complete readings and submit assignments on time, and to actively participate in class. Each participant's grade for the course will be based on the following: 20% short essays, 25% midterm, 40% final presentation, and 15% class attendance and participation.

#### **a. Class Attendance and Participation (15%)**

Students are expected to engage in class discussions, quizzes, and small-group assignments. They will also provide peer feedback for the final project presentations.

#### **b. Short Essays (20%)**

There will be 4 short assignments based on material relative to current debates on different public policy topics (higher education, retirement systems, etc.). These are 1–2-page submissions and will be graded on a three-tier scale: check-plus, check, and check-minus.

#### **c. Midterm (25%)**

The midterm will consist of a written assignment where you will critically assess an article related to policy published in an Economics journal.

#### **d. Final Project (40%)**

The final assignment will consist of a small, independent research project where students will form small groups (3 or 4 students) and explore a policy topic or intervention based on their interests. More details will be given during the first week of classes. At the end of the course, each

group will submit an abstract of their work and give a 15-minute presentation of their results. Presenters will be required to submit their abstract and a different group will be assigned to discuss findings and provide feedback. Peers' assessment will be considered to evaluate the presentation.

### Course Materials

Slides are the core material of the course and are provided through the Canvas website. The slides often contain gaps to be completed during the lectures. Moreover, some additional concepts, discussions, or references may come up during the lectures. If you miss a class make sure to get lecture notes from a fellow student. The detailed course schedule (further below) lists papers and links that provide additional details to complement the material discussed in class.

### Schedule

The following is a tentative schedule for the course activities. The instructor reserves the right to make any adjustments to facilitate course learning objectives.

Week	Topics	Assignments Due
Week 1 – 6/18 and 6/20	<ul style="list-style-type: none"> <li>Introduction: When should the Government intervene in the economy?</li> </ul>	
Week 2 – 6/25 and 6/27	<ul style="list-style-type: none"> <li>Market failures: externalities</li> </ul>	<ul style="list-style-type: none"> <li>Form groups and submit an initial topic idea (due 6/25)</li> <li>Short essay 1 (due 7/2)</li> </ul>
Week 3 – 7/2 (7/4 no class)	<ul style="list-style-type: none"> <li>Market failures: public goods</li> </ul>	<ul style="list-style-type: none"> <li>Short essay 2 (due 7/16)</li> </ul>
Week 4 – 7/9 and 7/11	<ul style="list-style-type: none"> <li>Market failures: imperfect and asymmetric information</li> </ul>	<ul style="list-style-type: none"> <li>Topic idea approved by instructor (due 7/18)</li> </ul>
Week 5 – 7/16 and 7/18	<ul style="list-style-type: none"> <li>Evaluating policy alternatives: cost-benefit analysis</li> </ul>	<ul style="list-style-type: none"> <li>Short essay 3 (due 7/18)</li> </ul>
Week 6 – 7/23 and 7/25	<ul style="list-style-type: none"> <li>Application: Policies in K-12 education</li> </ul>	<ul style="list-style-type: none"> <li>Midterm (due 7/25)</li> </ul>
Week 7 – 7/30 and 8/1	<ul style="list-style-type: none"> <li>Application: Discrimination</li> </ul>	<ul style="list-style-type: none"> <li>Final project: Submit one-page summary of preliminary analysis (due 8/1)</li> </ul>
Week 8 – 8/6 and 8/8	<ul style="list-style-type: none"> <li>Application: Crime</li> </ul>	<ul style="list-style-type: none"> <li>Short essay 4 (due 8/8)</li> </ul>
Week 9 – 8/13		<ul style="list-style-type: none"> <li>Final presentations</li> </ul>

and 8/15		
Week 10 – 8/20 and 8/22		• Final presentations

### Supplementary Reading:

#### Topic: Internalities

- Becker G., Murphy K., 1988. “A Theory of Rational Addiction”. *Journal of Political Economy* 96(4): 675-700.
- Gruber, J., Koszegi, B., 2001. “Is Addiction Rational? Theory and Evidence”. *The Quarterly Journal of Economics* 116(4): 1261-1303.
- Allcott H., Lockwood B., Taubinsky D., 2019. “Should We Tax Sugar-Sweetened Beverages? An Overview of Theory and Evidence”. *Journal of Economic Perspectives* 33(3): 202-227.
- Dubois P., Griffith R., O’Connell M., 2017. “The Effects of Banning Advertising in Junk Food Markets”. *The Review of Economic Studies*. 85(1): 396-436.
- O’Donoghue, T., Rabin, M., 2006. “Optimal Sin Taxes”. *Journal of Public Economics*, 90(10-11): 1825-1849

#### Topic: Cost-benefit analysis

- Heckman J., Pinto R., and Savelyev P., 2013. “Understanding the Mechanisms Through Which an Influential Early Childhood Program Boosted Adult Outcomes”. *American Economic Review* 103(6): 2052-2086.
- Weiland C., and Yoshikawa H., 2013. “Impacts of a Prekindergarten Program on Children’s Mathematics, Language, Literacy, Executive Function, and Emotional Skills”. *Child Development* 84(6): 2112-30.
- Ludwig J., and Miller D., 2007. “Does Head Start Improve Children’s Life Chances? Evidence from a Regression Discontinuity Design”. *The Quarterly Journal of Economics* 122(1): 159-208.
- Carneiro P., and Ginja R., 2014. “Long-Term Impacts of Compensatory Preschool on Health and Behavior: Evidence from Head Start”. *American Economic Journal: Economic Policy* 6(4): 135-173.
- García J.L., Heckman J., Leaf D., Prados M.J., 2017. “Quantifying the Life-Cycle Benefits of a Prototypical Early Childhood Program”. NBER Working Paper 23479.

#### Topic: School choice

- Abdulkadiroglu A., Pathak P., and Walters C., 2018. “Free to Choose: Can School Choice Reduce Student Achievement?”. *American Economic Journal: Applied Economics*, 10(1): 175-206.

- Figlio D., and Karbownik K., 2016. “Evaluation of Ohio’s EdChoice Scholarship Program: Selection, Competition, and Performance Effects”.
- Neal D., 2022. “How Vouchers Could Change the Market for Education”. *Journal of Economic Perspectives*, 16(4): 25-44.
- Hoxby C., 2003. “School Choice and School Productivity: Could School Choice be a Tide that Lifts All Boats?” In *The Economics of School Choice*, edited by Caroline Hoxby, 287-341. Chicago: University of Chicago Press.
- Deming D., Hastings J., Kane T., and Staiger D., 2014. “School Choice, School Quality, and Postsecondary Attainment”. *American Economic Review* 104(3): 991-1013.
- Hastings J., and Weinstein J.M., 2008. “Information, School Choice, and Academic Achievement: Evidence from Two Experiments”. *The Quarterly Journal of Economics* 123(4): 1373-1414.

#### Topic: Discrimination

- Charles K., and Guryan J., 2008. “Prejudice and Wages: An Empirical Assessment of Becker’s The Economics of Discrimination”, *Journal of Political Economy*, 116(5):773-809.
- Doleac J., and Hansen B., 2020. “The Unintended Consequences of ‘Ban the Box’: Statistical Discrimination and Employment Outcomes When Criminal Histories are Hidden”. *Journal of Labor Economics*, 38(2):321-374.
- Goldin, C., 2006. “The Quiet Revolution that Transformed Women’s Employment, Education, and Family”. *American Economic Review*, 96(2):1-21.
- Goldin, C. and Rouse C., 2000. “Orchestrating Impartiality: The Impact of ‘Blind’ Auditions on Female Musicians”. *American Economic Review*, 90(4):715-741.

#### Topic: Crime

- Becker G., 1968. “Crime and Punishment: An Economic Approach” *The Economic Dimensions of Crime*
- Lochner L., and Moretti E., 2004. “The Effect of Education on Crime: Evidence from Prison Inmates, Arrests, and Self-Reports”. *American Economic Review*, 94(1):155-189
- Aizer A., and Doyle J., 2015. “Juvenile Incarceration, Human Capital, and Future Crime: Evidence from Randomly Assigned Judges”, *Quarterly Journal of Economics*, 130(2):759-803.
- Heller S., Shah A., Guryan J., Ludwig J., Mullainathan S., and Pollack H., 2017. “Thinking, Fast and Slow? Some Field Experiments to Reduce Crime and Dropout in Chicago”. *Quarterly Journal of Economics*, 132(1):1-54.