Syllabus for half-credit course:
Advanced public economics

Tom Zawisza

THIS COURSE IS COMPLEMENTARY TO JESÚS BUEREN'S COURSE IN BLOCK IV, "TOPICS IN QUANTITATIVE MACROECONOMICS", AND WILL BE TAUGHT IN PARALLEL

Description

How much protection against health risk should an individual receive from the state? What is the trade-off between insurance and incentives in a disability insurance scheme? How generous should public pensions be, and how should they be paid for? The aim of the course is to introduce students to a range of recent approaches to answering the above questions which take the point of view of an individual's entire life-cycle. The two largest public programmes as measured by spending in most developed economies would be covered, namely retirement and disability insurance; public insurance against unexpected health-care use will also be covered. Two contrasting methodological approaches would also be introduced: partial equilibrium life-cycle models on the one hand, and the New Dynamic Public Finance literature on the other.

By the end of course students should be able to understand papers on the above subjects from the research frontier and the relative advantages and disadvantages of the approaches covered. They should also have gained familiarity with the basic tools involved: estimating health and medical spending risk, estimating life-cycle profiles of consumption and income, matching a dynamic model to data moments, analyzing welfare consequences of policy changes, formulating the social planner's problem in NDPF and its features in application to disability.

Classes

The course comprises seven 1.5 hour classes as follows:

1. Classes 1-2: disability insurance: life-cycle models

Introduction to the course; outline. Estimating earnings and health risk over the life-cycle. Modelling the relationship between health and utility, earnings and consumption. Observability of health status. Screening for disability. Analysing welfare consequences of local disability programme reforms.

2. Classes 3-4: disability insurance: New Dynamic Public Finance

The general form of the NDPF problem: unobserved and stochastic ability, consumption-savings and labour supply decisions. Application to the disability-insurance case. First-best and second-best. Inverse-Euler equation results. Implied age-profiles of consumption. Implementation via tax and transfer scheme. Tagging and Type I and Type II errors in screening.

3. Classes 5: medical spending in old age

Quantifying the significance of medical spending risk to household budgets. The importance of medical spending to understanding consumption of elderly households and retirement behaviour. Medicare and Medicaid as forms of social insurance.

4. Classes 6-7: public pensions and public pension reform:

Life-cycle earnings profiles. The retirement decision. Defined benefit versus defined contribution systems. Assessing programmes from the point of view of incentives versus inequality. Empirical evidence on private pension crowding out, empirical evidence on labour-market consequences of retirement reform. Looking at disability and retirement programmes together. Open questions in the literature.

Evaluation

Students will be evaluated through a take-home exam, asking to implement simplified versions of the computational models taught in the course.

Reading

The papers below would be most closely related to the topics covered in this course:

Akerlof, G. A. (1978), "The Economics of "Tagging" as Applied to the Optimal Income Tax, Welfare Programs, and Manpower Planning", *American Economic Review* 68:1, pp.8-19.
Golosov, M. and A. Tsyvinski (2006), "Designing Optimal Disability Insurance: A Case for Asset Testing", *Journal of Political Economy* 114:2, pp. 257-279.
French, E. and J.B. Jones (2011), "The Effects of Health Insurance and Self-Insurance on Retirement Behabior", *Econometrica* 79:3, pp. 693-732.
Low, H. and L. Pistaferri (2015), "Disability Insurance and the Dynamics of the Incentive Insurance Trade-Off", *American Economic Review* 105:10, pp.2986-3029.
O'Dea, C. (2018), "Private Pensions and Public Pension Design", *Mimeo.*