ECON 401: Labor Supply and Public Policy
Syllabus

Melissa Tartari
Yale

1 Administrative Details

Class

- Location: WLH 012
- Lecture Day and Time: TU and TH 1:00pm-2:15pm
- Website: https://classesv2.yale.edu/portal
- Calendar: The first day of class is TH August 30th, the last day of class is TH December 6st. There will be no class on TH November 29th, the make-up will be held on FR November 30th at a time/location TBA. We will meet 26 times. The written final exam is scheduled for FR December 14th at 9am (location TBA). There will be an oral final exam (aka a conversation) scheduled for TH December 6th, before or after class. For the latest information please see the Online Course Information (OCI) website http://www.yale.edu/oci/.

Instructor

- Name: Melissa Tartari
- Email: melissa.tartari@yale.edu
- Office phone number: 203-432-9536
- Office Hours and Location: 5:10-7:00pm MO (walk-in), TU 10:30-12:00pm (by appointment only) and TH 2:30-4:00pm (by appointment only), room 34, 37 Hillhouse Avenue (3rd floor). If you come after 5pm: please give me a call at 203-432-9536 when you get to the building because the entrance door will be locked and I have to come downstairs and let you in.

2 Overview of the Course

This class focuses on the impact of public policies, especially insurance and assistance programs, on the supply side of the labor market. The course has a markedly applied cut and places a strong emphasis on the empirical analysis of past public policy interventions within the US context. It squarely falls within the realm of micro-economics.

In the first part of the course we employ the standard neoclassical theory of individual consumer behavior in order to understand how an individual allocates her time between work and leisure. We pay particular attention to the fact that the labor supply choice entails both an extensive margin - whether or not to work - and an intensive margin - how many hours to work, conditional on working. We refer to this model as to the static neoclassical model of time allocation to distinguish it from a generalization that allows for a host
of dynamic features. We conclude the theory part of the course by building a simple dynamic neoclassical model of time allocation. The model recognizes that an individual makes labor supply decisions repeatedly over time and that her current labor supply decision may have lasting impacts in terms of her future skills, preferences, and opportunities.

The neoclassical model of time allocation developed in the first part of the course assumes away any kind of public policy. Thus, in the second part of the course, we introduce into the model a wide collection of public policies and examine their impact on the labor supply decision. Specifically, we consider policies that fall into three groups: (1) polices that provide social insurance; examples are disability, unemployment, and old-age insurance; (2) policies that provide poverty relief; examples are cash assistance and in-kind transfers including Food Stamps and Medicaid; and (3) redistributive policies; examples are the taxation of earnings and the tax treatment of employer provided health insurance. We study each policy in three steps: we learn about its institutional features, we characterize its impact on labor supply based on theory, and we review the empirical evidence concerning the labor supply responses to past changes in these policies. Some of the applications considered are (a) the Negative Income Tax experiments of the period 1968-1979, (b) the welfare experiments of the early 1990’s as well as the 1996 PROWRA reform, (c) the earned income tax credit expansion that took place during the 1990’s, (d) the Reagan across-the board tax cuts of the 1980’s, (e) the mid-1990’s Medicaid expansion, and the (f) the Illinois’s 1984 UI Incentive experiment.

The economic and econometric theory that are part of the course are introduced and/or reviewed at the start of the semester as well as a compendium to the discussion of students’ presentations. Indeed, a subset of the lectures are devoted to presentations by students, the focus of the presentations will be articles published in peer-reviewed scientific journals. The course should be of interest mostly to students in economics, public policy, public finance, public health, sociology, and political science.

3 Prerequisites

Students should have taken Introductory or Advanced Econometrics (ECON 131 or ECON 136) as well as Introductory Microeconomics (ECON 115) and ideally Intermediate Microeconomics (ECON 121). Students may have taken in the past or may take concurrently Public Finance (ECON 275).

Specifically, students should be familiar with the following approaches: Least Squares, IV/2SLS, Difference in Difference, and with basic Panel data methods such as First Difference and Fixed Effects. Students should have been exposed to the estimation of basic non-linear models by the Maximum Likelihood approach, models such as the Logit and Probit. As to the microeconomics background, students should be comfortable with elementary multivariate differential calculus as applied to the static neoclassical consumer model.

4 Textbooks and Journal Articles

Textbooks There are no required textbooks. There are five recommended text-books, they are all available at the CSSSI Library and older editions are typically sufficient. They are:

HR Harvey S. Rosen "Public Finance", McGraw-Hill (the 9th edition is co-authored with Gayer)

There are no required text-books because all the required readings will consist of articles published in scientific journals, see below.
Journal Articles  You may expect to read approximately 8 articles in very great detail and to read a total of 30 articles over the course of the entire class. The articles are listed below, in the session devoted to students’ presentations. A subset of these articles will form the object of assignments.

Online Material  We will use the yaleclasses*v2 software. You can log-in at https://classesv2.yale.edu/portal. You should always check the announcement 'Schedule of the course’ because it will be constantly updated with any information relevant to the class, you should also verify that you are able to access your grades, you should download the journal articles that are in the reading assignment and read them (if for some reason you do not find a given article posted on the classesv2 site please let me know at once).

5 Assessment and Grading

Here I describe the several ways in which your learning and understanding of the course material will be assessed. The grade will be based on the following items:

1. Class presentation of journal articles (20%) and report (10%)
2. Class participation (5%) and homework assignments (25%)
3. Written final exam (35%) and oral quasi-final exam (5%)

5.1 Class Grade

The letter grade is derived as follows. First, the numeric 0-100 scores are aggregated across the various components:

\[ NG = 20\% \times JP + 10\% \times FR + 5\% \times CP + 25\% \times AS + 35\% \times FWE + 5\% \times FOE \]

where:

- \( JP \) is the 0-100 score on the group-based presentation of the journal articles,
- \( FWE \) is the 0-100 score on the written final exam,
- \( FR \) is the 0-100 score on the written quasi-final report,
- \( FOE \) is the 0-100 score on the oral quasi-final exam,
- \( CP \) is the 0-100 score on class participation,
- \( AS \) is the 0-100 score on the assignments,

The following table is then used to convert the numeric score \( NG \) into a letter grade:

<table>
<thead>
<tr>
<th>Letter Grade</th>
<th>F</th>
<th>D-</th>
<th>D</th>
<th>D+</th>
<th>C-</th>
<th>C</th>
<th>C+</th>
<th>B-</th>
<th>B</th>
<th>B+</th>
<th>A-</th>
<th>A</th>
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<tr>
<td>Numeric Grade</td>
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<td>41-43</td>
<td>44-47</td>
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<td>55-59</td>
<td>60-64</td>
<td>65-69</td>
<td>70-74</td>
<td>75-79</td>
<td>80-89</td>
<td>90-100</td>
</tr>
</tbody>
</table>
6 In-class Presentation and Report

You are asked to form 6 groups of about 1-3 students. Each group will be assigned approximately 8 articles called a SET - and asked to prepare slides for a 50 minute presentation to be scheduled in October/November (dates TBA). The articles in a SET always form a homogeneous set as far as the topic is concerned, see below for a chronologically ordered super list of sets. The assignment of SETs to groups will appears at the class’s Wiki by September 18th. The presentations will start on September 25th or later. Two SETs are not assigned, #0 and #6: they are covered during standard lectures.

One or more (that’s your choice) of each group’s members will give the presentation based on a set of slides. The slides should be in .pdf format and should be uploaded by 11am on the day of the presentation. The file should be named ECON401a_SET#_Presentation_YourFamilyNames.pdf with the number of the set in place of #. Please use the class’s Drop Box to upload this file, I will then make the slides available for download to everyone at Resources/Slides of Students' Presentations location. The presenting group is strongly encouraged to meet with me the day before the presentation (MO 5:10-7:10pm) to go over the slides. Please contact me well ahead of time if you must schedule a different meeting time (see above for office hours by appointment only). All the members of the presenting group should be ready to answer questions on the assigned articles during the presentation. More details as to how to structure the presentation are given below.

6.1 SETs

SET #0 - Theory*


SET #1 - Income and Substitution Effects & the NIT


SET #2 - UI


SET #3 - DI


SET #4 - EITC


SET #5 - Welfare (1) and Food Stamps


SET #6 - Welfare (2)*


SET #7 - Medicaid


6.2 Guidelines for in-class Presentation

Planning the Presentation Reading the journal articles and setting up the presentation will require a lot of work, most articles are long and technical and, in my assessment, reading a representative article will take you at least 3 hours. Also, intelligently packing 8 technical articles in a 50 minutes presentation is a challenge that can be accomplished only if you master each article in the SET and understand how they are connected to each other. Thus, I advise you to start working on your SET of articles from the beginning of the semester, do not delay. Plan the presentation very carefully and practice it beforehand. When working on your presentation make every effort not to have too many slides so that you will not run the risk of going over time. Please do remark that I will interrupt your presentation and that I will ask questions.
Use of the Original Article in the Presentation  You are highly encouraged to use/project the tables of results contained in the articles and comment on them during your presentation. This is typically much better than creating your own display of the results. By the same token you should feel free to use extracts from the articles as you deem fit, for instance, to display mathematical equations. From within Adobe Acrobat, you can extract pages from a pdf file by using Tools then Extract. You can insert pages in pdf format into an existing pdf file (for instance, the pdf of your Power Point presentation) by using Tools and then Insert from File.

The Structure of the Presentation  At the outset you have to choose between two distinct approaches. You can present the articles in the SET sequentially, one by one, or you can use the articles in the SET in a less structured way in order to cover a given topic. Which approach you adopt will most likely depend on the SET. At times you may want to blend the two approaches. This would be the case if two articles in the SET differ but for a few aspects, for instance, they answer the same question and adopt the same approach but implement it with different data sets.

Article-by-article Presentations  When you prepare slides for each article I suggest that they share a strict common structure which I present next by means of questions that should be answered.

1. To the point aka “The Question”:
   (a) What is the question asked?
   (b) Why is the question of interest/relevant?
   (c) What is novel about the question, if anything?

2. Framing aka “The Article”:
   (a) How does the article relate to the other articles in the SET? For instance, does it improve on the previous article? Does it offer a different solution to the same problem? Does it take up a challenge identified by the previous article?
   (b) What is novel about the article, as a whole? The question? The empirical approach? The data?
   (c) What is the road map of the presentation?

3. The core aka “The Approach” and “The Empirical Analysis”:
   (a) What are the challenges in answering the question, if any? How to the authors propose answering in the question? What is the theoretical model put forth/of reference? What is the econometric model put forth and estimated?
   (b) What data is used in the empirical analysis? Why? That is, what is good about such data? You need to make sure to understand the data and this may require you to look it up because the article may not have much detail especially about well known and widely used national surveys. What are the results/findings?

4. Wrapping up aka “Concluding Remarks”:
   (a) What is the overall contribution of the article?
   (b) What is your overall take on the article? What did you like/appreciate the most? What did you like/appreciate the least? What could be improved? What did you find not convincing?
   (c) How does the article relate to the other articles in the SET? For instance, it sets the stage for the following article and if so how.
Multi-article Presentations  At times it is not advisable to present the articles in the SET one by one. This is the case if, for instance, some of the articles are reviews or if some of the articles are only marginally different. In this case you should, for instance, use the review article only to inform your reading of the other articles or the laying out of the presentation, there is no need to present the review article. As another example, if there are two articles the second of which consists of a modification or enrichment of the first then you should present the two articles without redundancies making sure to explain what the second article adds or improves on but avoiding repetitions.

6.3 Guidelines for the Report on the Articles Presented

Each group shall write a critical and cohesive review of the articles that formed the focus of their presentation. Each review/report shall be from 4 to 6 pages in length (up to you), typed, 1’ top/bottom/left/right margins, single spacing, Calibri, 12p. Please upload your report as a .pdf file using the class’ Drop Box. Please name the file ECON401a_SET#_Report_YourFamilyNames.pdf. The report is due only by December 6th, the last day of class. However, I strongly encourage you to write at least a draft concurrently or immediately after your presentation.

The report should be a stand alone piece of work. By that I mean that it should be readable and comprehensible by a reader who has not read the articles. You have some freedom as to how to organize the report but you should make sure that it answers the following questions:

1. What is the issue? What is(are) the question(s) asked?
2. Why is the question/issue interesting/relevant? What is the broader framework to which the question/issue belongs?
3. What does micro-economic theory says about the issue?
4. Why is empirical work necessary to answer the question/tackle the issue?
5. What are the difficulties involved with carrying out empirical work to shed light on the issue?
6. Which approaches have been adopted in the literature? What are they pros and cons, strength and weaknesses, of the approaches? How have the approaches adopted in the literature tacked the difficulties described in 5.?
7. What have we learned from the analysis carried out in the articles?
8. What additional research would be welcome? Which aspects need more work? Do we need better/different data? If so, how better/different? Do we need a different econometric approach? If so, how different? Do we need a better/more comprehensive theory? If so, what should we add to the basic theory and why?

7 Class Participation and Homework Assignments

Homework assignments will be given approximately bi-weekly. The default type of homework will consist in a reading assignment from the above list of journal articles plus questions. You are welcome to work on the assignments in groups. I will collect solution sheets one or two weeks after handing them out (TBA). Assignments are graded on a 0-100 scale. A grade of 0 is given to a student whose answer is fully unsatisfactory.

A student who participates in class is a student who comes to class regularly and on time, asks questions to the instructor and to the other students, and makes suggestions and comments.
8 Exams

The exams are closed books and closed notes. There are two parts: a final written exam and a quasi-final oral exam. Both parts are graded on a 0-100 scale. A grade of 0 is given if a student is absent on the day of the exam.

The written final exam will last 3 hours, that is, the default: 2.5 hours for the exam and 30 minutes to review your work. The final exam will be taken in class on TU December 11th (time and location TBA). The final written exam will cover everything: journal articles, assigned book chapters, newspaper articles, lecture notes, homework assignments. You may bring printed copies of the journal articles with you but please leave the lectures notes and everything else at home. A superset of the questions asked at the final exam will be made available to the students on December 4th, at the latest. You should expect most of these questions to be taken verbatim from the weekly assignments and virtually all of them to refer explicitly and directly to one or more of the journal articles covered in class, either during a lecture or a students' presentation.

Each student should schedule the oral exam with me sometimes on TU December 4th, between 9am-12:00pm and 2:30-8:00pm or on TH December 6th, between 9am-12:00 and 2:30-4:00pm. The oral exam will be held at my office, it will last about 15 minutes, and it will look very much like a conversation. The oral exam will focus only on the journal articles presented in class. While its coverage partly overlaps with the coverage of the final written exam the two exams will test somewhat different skills and competency.