



Course: Applied Public Economics
Faculty: Ada Ferrer-i-Carbonell and Jaume Garcia-Villar
Term: Second term
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Office Hours: Upon request

Description:

The course consists of two parts. The first part will focus on the subjective well-being literature. The course will focus on the methods, the data used, and the relevance of the topic and its results. The choice of specific papers and topics relies on their importance in the literature, the debate generated around them, and their evolution over the years. The course will focus on its novelty, results, empirical strategy, and opportunities for the future.

The second part will focus on extending some of the microeconomic models discussed in previous courses to deal with some specific characteristics of the models and the data sets you will find in empirical research. That part of the course will pay special attention to the adequacy of these models and to the interpretation of the estimates. There will be some empirical illustrations of the use of these econometric tools.

Objective: Familiarize the students with relevant issues of applied economics as well as the empirical strategies to approach a research question as well as assessing the relevance and novelty of it. At the end of the first part the students will have an understanding of the subjective well-being literature and its applications to public economics.

The course will offer some "policy conclusions" to take home.

At the end of the second part the students will have the background necessary to deal with the specification of econometric models required to analyse some economic issues using microdata.

Outline:

First Part – Subjective well-being

Ada Ferrer-i-Carbonell

1. *Happiness Economics*: new developments into the measurement of utility

- A conceptual framework and empirical evidence
- Data: Available data panels and experiments
- Econometric techniques and its main assumptions
- Endogeneity: endogenous variables and reverse causality

2. A glance into the most relevant topics:

- Wages and income
- Inequality
- Macro-economic variables
- Labor market
- Other public policy relevant issues: health, environment, etc.
- The role of non-cognitive skills on shaping preferences: risk attitudes and personality traits.

References:

Additional references will be provided during the course.

- Antecol, H. and D.A. Cobb-Clark, 2009. Racial Harassment, Job Satisfaction and Intentions to Remain in the Military *Journal of Population Economics*, 22 (3), 713-738
- Booth, A.L., and J.C. van Ours, 2008. Job Satisfaction and Family Happiness: The Part-time Work Puzzle. *Economic Journal*, 118 (526), F77–F99.
- Boyce, C and A. Oswald, 2012. Do People Become Healthier After Being Promoted?. *Health Economics*, 21(5): 580-596.
- Clark, A., A. Knabe and S. Rätzl. 2010. Boon or Bane? Well-being, Others' Unemployment, and Labor-Market Risk. *Labour Economics*, 17(1): 52-61.
- Clark, A.E., N. Kristensen, N.C. Westergård-Nielsen, 2009. Job Satisfaction and Co-worker Wages: Status or Signal? *Economic Journal*, 119 (536), 430–447
- De Neve, J-E and A. Oswald, 2012. Estimating the influence of life satisfaction and positive affect on later income using sibling fixed effects. *Proceedings of the National Academy of Sciences of the USA*, 109(49): 19953-19958.
- Ferrer-i-Carbonell, A. and B.M. S. van Praag, 2003. Income Satisfaction Inequality and its Causes. *Journal of Economic Inequality*, 1 (2): 107-127
- Ferrer-i-Carbonell, A. and P. Frijters, 2004. How Important is Methodology for the estimates of the determinants of Happiness? *Economic Journal*, 114(497), 641-659.
- Fischer, J.A.V. and A. Sousa-Poza, 2009. Does job satisfaction improve the health of workers? New evidence using panel data and objective measures of health. *Health Economics*, 18, 71-89
- Oswald, A.J., E. Proto, and D. Sgroi, 2014. Happiness and productivity. Forthcoming in the *Journal of Labor Economics*.
- Frijters, P., J.P. Haisken-DeNew, and M.A. Shields, 2004. The Value of Reunification in Germany: An Analysis of Changes in Life Satisfaction. *Journal of Human Resources*, 39 (3), 649-674
- Gardner, J. and A.J. Oswald, Andrew, 2006. Money and mental wellbeing : a longitudinal study of medium-sized lottery wins. *Journal of Health Economics*, 26(1), 49-60.
- Hamermesh, D.S., 2001. The Changing Distribution of Job Satisfaction. *Journal of Human Resources*, 36 (1), 1-30
- Luechinger, S., S. Meier, and A. Stutzer, 2010. Why does unemployment hurt the employed? evidence from the life satisfaction gap between the public and the private sector. *Journal of Human Resources*, 45(4), 998-104.

Shields, M.A. and M.E. Ward-Warmedinger, 2001. Improving Nurse Retention in the British National Health Service: The Impact of Job Satisfaction on Intentions to Quit. *Journal of Health Economics*, 2001, 20(5), 677-801

Stevenson, B. and J. Wolfers, 2008. Happiness Inequality in the United States. NBER Working Paper No. 14220

Second Part – Applied microeconometrics: some extensions

Jaume Garcia-Villar

1. Extensions of the Tobit model

- Double hurdle models
- Two-part models
- Applications: Tobacco and gambling expenditure

2. Count data models

- Basic models
- Zero inflated models
- Application: Demand of health services

3. Quantile regression

- Unconditional quantiles
- Quantile regression model
- Application: Wage discrimination by gender

References:

Additional references will be provided for each topic.

Cameron, A.C. and Trivedi, P.K., *Microeconometrics. Methods and Applications*, Cambridge University Press, 2005

Cameron, A.C. and Trivedi, P.K., *Microeconometrics using STATA*, STATA Press, 2010

Wooldridge, J.M., *Econometric Analysis of Cross-Section and Panel Data*, MIT Press, 2010

Grading:

Students have to hand in a final paper of about 10 pages that will count as 80% of the grade.

In the first part of the course students will have to present one paper in groups of maximum 3 people. This will count as ten percent of the grade. All the students of the group will have the same grade.

The second part of the course will have homeworks which will be based on groups. At least one homework per group will be graded randomly. Homeworks receive 20% of the final grade. All the students of the group will have the same grade.

Participation in class will also be taken into account when evaluating the final project.

Description of the Final Paper: Answer a research question by examining the literature and the current data sets. The exercise needs to cover the following aspects: introduce the question and the literature your question relates to, discuss your empirical strategy and/or theoretical model, make sure your model/empirical strategy are linked to the question you ask, discuss and explain your findings, comment on whether these are the results are expected and how they compare the literature so far, and what do the results add to what we already knew?