



Course: Applied Public Economics
Faculty: Hannes Muller and Ada Ferrer-i-Carbonell
Term: Second term
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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 aims to provide an understanding of dynamics of poverty and violence in the poorest parts of the world. The course will therefore deviate from classic public economics issues (like optimal taxation etc.) and focus instead on research in political economy, conflict and economic development. The main aim of the literature discussed in this course is to understand (some of) the massive income differences between countries by analyzing how politics and economics interact. The course discusses a heterogeneous field in terms of methodology with an effort to combine economic theory and data.

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 an understanding of how institutions, power and economic outcomes interact with each other. They will also be familiar with a wealth of concepts used in political economy, conflict and development economics today.

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 - Political Economy and Development

Hannes Mueller

Motivation and Empirical Tools (Session 1)

The first session will motivate the focus on political economy and the move away from standard growth models towards understanding institutions and conflict. Content of this session will be tested in the same week in an online test.

Voting (Sessions 2 and 3)

Voting models are the backbone of many political economy models. They also offer an excellent starting point to talk about the impact of institutions on political (and economic) outcomes.

- *Median Voter Model, Multidimensional Voting, Citizen Candidate*
- *Besley, Timothy and Robin Burgess (2002) The Political Economy of Government Responsiveness. Quarterly Journal of Economics, 117(4), pp. 1415-1451.*
- *Besley, Timothy, Torsten Persson and Daniel Sturm (2010) Political Competition, Policy and Growth: Theory and Evidence from the US. Review of Economic Studies, 77, pp. 1329–1352.*
- *Caselli, Francesco and Massimo Morelli (2004) Bad politicians, Journal of Public Economics 88, pp. 759-782.*
- *Chattopadhyay, Raghendra and Esther Duflo (2004) Women as Policy Makers: Evidence from a Randomized Policy Experiment in India. Econometrica, 72(5), pp. 1409-1443.**
- *DellaVigna, Stefano and Ethan Kaplan (2007) The Fox News Effect: Media Bias and Voting. Quarterly Journal of Economics, 122, pp. 1187-1234.**

- *Fernandez, Raquel and Dani Rodrik (1991), Resistance to Reform: Status Quo Bias in the Presence of Individual- Specific Uncertainty. American Economic Review, 81(5), pp. 1148-1155.*
- *Persson, Torsten and Lars Svensson (1989) Why a Stubborn Conservative would Run a Deficit: Policy with Time-Inconsistent Preferences. The Quarterly Journal of Economics Vol. 104(2), pp. 325-345.*
- *Pettersson-Lidbom, Per (2001) An Empirical Investigation of the Strategic Use of Debt. Journal of Political Economy, 109(3), pp. 570-583.*
- *Sturm and List (2006) How Elections Matter: Theory and Evidence from Environmental Policy. Quarterly Journal of Economics, 121(4), pp. 1249-1281.**
- Dal Bo et al (forthcoming) Who Becomes a Politician? Quarterly Journal of Economics.
- *Gagliarducci and Nannicini (2013) Do Better Paid Politicians Perform Better? Disentangling Incentives from Selection. Journal of the European Economic Association, 11(2), pp. 369-398*

Political Accountability/Selection and the Bureaucracy (Sessions 4 and 5)

In these sessions we look at an alternative to voting – appointment for life. We first discuss the effect that (the lack of) accountability has on decision-making. In this context we will discuss the state bureaucracy as an institution. We will analyse how incentives inside the bureaucracy can be changed and how this affects welfare. We then move towards the political process which surrounds recruitment decisions in the bureaucracy. Finally, we will analyze how the tension between competence and political power in the bureaucracy affect efficiency and social peace.

- *Aghion and Tirole (1997) Formal and Real Authority. Journal of Political Economy, 105(1).*
- *Alesina and Tabellini (2007) Bureaucrats or Politicians? Part I: a single policy task. American Economic Review.*
- *Hanssen (2004) Is There a Politically Optimal Level of Judicial Independence? American Economic Review, Vol. 94, No. 3 (Jun., 2004), pp. 712-729*
- *Maskin and Tirole (2004) The Politician and the Judge: Accountability in Government. American Economic Review 94(4), pp. 1034-1054.**

- Bai and Jia (2016) Elite Recruitment and Political Stability: The Impact of the Abolition of China's Civil Service Exam. *Econometrica*, Vol. 84, No. 2 (March, 2016), 677–733.*
- Bandiera, Prat and Valletti (2009) Active and Passive Waste in Government Spending: Evidence from a Policy Experiment. *American Economic Review*: 99(4): 1278-1308.
- Callen and Long (2015) Institutional Corruption and Election Fraud: Evidence from a Field Experiment in Afghanistan. *American Economic Review*, 105(1): 354–381
- Fisman and Miguel (2007) Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets. *Journal of Political Economy*, 115(6): 1020-1048.
- Bengt Holmstrom and Paul Milgrom Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design. *Journal of Law, Economics, & Organization*, Vol. 7, pp. 24-52
- Iyer and Mani (2012) Traveling Agents: Political Change and Bureaucratic Turnover in India. *The Review of Economics and Statistics*, 94(3): 723–739.
- Mueller (2014) Insulation or Patronage: Political Institutions and Bureaucratic Efficiency. *BE J. Econ. Anal. Policy* 2015; 15(3): 961–996.*
- Niskanen (1968) The Peculiar Economics of Bureaucracy. *The American Economic Review* Vol. 58, No. 2: pp. 293-305.

Property Rights, the Legal System and Law and Order (Sessions 6 to 8)

Property rights are an important mechanism by which political institutions affect economic outcomes. In this series of sessions we discuss why property rights are important empirically and why they are often provided ineffectively.

Historic routes:

- *Glaeser and Shleifer (2002) Legal Origins. Quarterly Journal of Economics, 117 (4): 1193-1229.*
- *Banerjee and Iyer (2005) History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India. American Economic Review, 95(4): 1190-1213.*

The mechanism at work:

- *Stijn Claessens and Luc Laeven (2003) Financial Development, Property Rights, and Growth. Journal of Finance, 58(6), 2401--2436.*
- *Goldstein and Udry (2008) The Profits of Power: Land Rights and Agricultural Investment in Ghana, Journal of Political Economy.*

- Besley, Tim; Thiemo Fetzer and Hannes Mueller (2015) *The Welfare Cost of Lawlessness: Evidence from Somali Piracy*. *JEEA*, 13(2): 203–239.*
- Besley, Tim and Hannes Mueller (2018) *Predation, Protection and Productivity: A Firm-Level Perspective*. *American Economic Journal: Macro*.

De Jure and De Facto Political Power (Sessions 9 to 11)

Political institutions affect political outcomes. However, outcomes and institutions also bend under economic power. In this series of sessions we discuss examples and mechanisms of this reverse causality.

- Acemoglu and Robinson (2006) *Economic Origins of Dictatorship and Democracy*. (only main model taken from Daron's lecture notes)
- Acemoglu and Robinson (2006) *De Facto Political Power and Institutional Persistence*. *American Economic Review, Papers and Proceedings*.
- Blanes i Vidal, Draca, and Fons-Rosen (2012) *Revolving Door Lobbyists*. *American Economic Review*, 102(7): 3731-48.
- Kuziemko, Ilyana and Eric Werker (2006) *How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations*. *Journal of Political Economy*, 114(5), pp. 905-930.
- Dube; Kaplan and Naidu (2011) *Coups, Corporations, and Classified Information*. *Quarterly Journal of Economics*.
- Luechinger and Moser (2014) *The value of the revolving door: Political appointees and the stock market*. *Journal of Public Economics*. Volume 119, November 2014, Pages 93–107.
- Baland, Jean-Marie, and James A. Robinson (2008) *Land and Power: Theory and Evidence from Chile*. *American Economic Review*, 98(5): 1737-65.
- Siwan Anderson, Patrick Francois, and Ashok Kotwal (2015) *Clientelism in Indian Villages*. *American Economic Review* 2015, 105(6): 1780–1816.

Political Institutions as a Mediator of Internal Conflict (Sessions 12 and 13)

We return to the idea that political institutions stabilize the economy. The mechanism we discuss will be based on the idea that there are both exogenous economic shocks and pre-existing conflicts that are alleviated by political institutions.

- Besley, Tim and Torsten Persson (2011) *The Logic of Political Violence*. *Quarterly Journal of Economics*, 126(3), 1411-1445.

- Burgess et al (2015) *The Value of Democracy: Evidence from Road Building in Kenya*. *American Economic Review*
- Eric Chaney (2013) *Revolt on the Nile: Economic Shocks, Religion, and Political Power*. *Econometrica*, 81(5), 2033--2053.
- Esteban, Joan, Laura Mayoral, and Debraj Ray (2012) *Ethnicity and Conflict: An Empirical Study*, *American Economic Review*, 102(4): 1310-42.
- Michalopoulos, Stelios and Elías Papaioannou (2016) *The Long-Run Effects of the Scramble for Africa*. *American Economic Review*. 106 (7): 1802-48.
- Bonus: Besley, Tim and Hannes Mueller (2012) *Estimating the Peace Dividend: The Impact of Violence on House Prices in Northern Ireland*. *American Economic Review*.

References:

References are given in the outline

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 10% 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 ten percent 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?