

14.472 - Public Finance II
Peter Diamond/Jon Gruber
Spring 2000

Meetings:

The course will meet Mondays and Wednesdays from 1-2:30 in E51-390. There will be additional meetings to discuss problem sets at times to be arranged. The teaching assistant for the course is Dan Bergstresser (dberg@mit.edu).

Requirements:

There will be two problem sets, a mid-term take-home exercise, and an in-class final exam. The problem sets will count for 10% of the grade, the mid-term exercise will count for 35% of the grade, and the final will count for the other 55%.

14.472 Home Page:

There is a 14.472 home page (<http://web.mit.edu/economics/www/14472>) on the World Wide Web. Copies of the reading list, problem sets, and some handouts and problem set answer sheets will be available on the home page.

Office Hours:

Gruber is available on Mondays and Wednesdays after class, from 2:30-4:00, in E52-355. Diamond is available Mondays to Thursdays 2:30-3:30 in E52-344. To make appointments at other times, just send email to pdiamond@mit.edu or gruberj@mit.edu

Public Finance Field Requirements:

The Public Finance field requirement consists of two courses: 14.471 (Public Finance I) and 14.472 (Public Finance II). In some cases, 14.474 (Advanced Topics in Public Economics) may be combined with 14.471 to satisfy the field requirement.

Public Finance Seminar and Luncheon Meeting:

The public finance seminar plays an important part in raising current "hot topics" and permitting students to meet some of the outstanding scholars in the field. Seminars take place Monday afternoons from 4:00-5:30. The seminar alternates between Harvard and MIT and when at MIT meets in E51-151. Schedules, seminar notices, and papers are usually available in E52-352. The seminar is not restricted to thesis writers, and first and second year students are encouraged to attend. We also have an informal Monday luncheon in E52-244 (noon) where thesis writers present their work in progress; students planning to specialize in public finance are welcome to attend.

14.472 - Public Economics II

P.Diamond/J. Gruber

Spring 2000

1. Social Insurance Theory

G. Akerlof, "The Market for Lemons," Quarterly Journal of Economics 85 (1970), 488-500. (in P. Diamond & M. Rothschild, Uncertainty in Economics, (New York: Academic Press, Revised Edition, 1989).

A.B. Atkinson, "Income Maintenance and Social Insurance," in A. Auerbach and M. Feldstein, eds., Handbook of Public Economics Volume 2 (Amsterdam: North Holland, 1987), 779-908.

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P. Diamond, "A Framework for Social Security Analysis," Journal of Public Economics 8 (1977), 275-298.

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L. Kotlikoff and A. Spivack, "The Family as an Incomplete Annuities Market," Journal of Political Economy, 89 (1981), 372-291.

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2. Social Security**2.1 Theoretical Models**

P. Diamond and J. Mirrlees, "A Model of Social Insurance with Variable Retirement," Journal of Public Economics, 10 (1978), 295-336.

P. Diamond and J. Mirrlees, "Social Insurance with Variable Retirement and Private Saving," Journal of Public Economics (forthcoming).

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Z. Eckstein, M. Eichenbaum, and D. Peled, "Uncertain Lifetimes and the Welfare Enhancing Properties of Annuity Markets and Social Security," Journal of Public Economics 26 (1985), 303-326.

W. Enders and H. Lapan, "Social Security Taxation and Intergenerational Risk Sharing," International Economic Review 23 (1982), 647-658.

M. Feldstein, "Imperfect Annuity Markets, Unintended Bequests, and the Optimal Age Structure of Social Security Benefits," NBER Working Paper 2820, 1989.

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J. Green, "Demographics, Market Failure and Social Security," Chapter 1 in Susan M. Wachter, ed., Social Security and Private Pensions, 1988, Lexington Books, 3-16.

R. G. Hubbard and K. Judd, "Social Security and Individual Welfare: Precautionary Saving, Borrowing Constraints, and the Payroll Tax," American Economic Review, (September 1987), 630-646.

E. Karni and I. Zilcha, "Aggregate and Distributional Effects of Fair Social Security," Journal of Public Economics 40 (1989), 37-56.

E. Karni and I. Zilcha, "Welfare and Comparative Stastics Implications of Fair Social Security: A Steady-State Analysis," Journal of Public Economics 30 (1986), 341-358.

2.2 Social Security, Saving, and Benefit Adequacy Issues

J. Banks, R. Blundell, and S. Tanner, "Is There a Retirement Savings Puzzle?," American Economic Review 88 (1998), 769-788.

D. Bernheim, "Dissaving After Retirement: Testing the Pure Lifecycle Hypothesis," in Z. Bodie, J. Shoven, and D. Wise, eds., Issues in Pension Economics, (Chicago: University of Chicago Press, 1987), 237-283.

D. Bernheim, "The Economic Effects of Social Security: Toward a Reconciliation of Theory and Measurement," Journal of Public Economics, 33 (1987), 273-304.

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J. Brown and J. Poterba, "Joint Life Annuities and Annuity Demand by Married Couples," mimeo, MIT, 1998.

P. Diamond and J. Hausman, "Individual Retirement and Savings Behavior," Journal of Public Economics 23 (1984), 81-114

J. Duggan, R. Gillingham, and J. Greenlees, "Progressive Returns to Social Security? An Answer from Social Security Records," U.S. Treasury Department Working Paper #9501, November 1995.

S. Edwards, "Why are Savings Rates so Different Across Countries? An International Comparative Analysis," NBER Working Paper #5097, April 1995.

W. Gale, "The Effects of Pensions on Household Wealth: A Re-Evaluation of Theory and Evidence," Journal of Political Economy 106 (August 1998), 706-723.

D. Hamermesh, "Consumption During Retirement: The Missing Link in the Life-Cycle Hypothesis," Review of Economics and Statistics 66 (1984), 1-7.

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M. Hurd, "Savings of the Elderly and Desired Bequests," American Economic Review, 77 (1987), 298-312.

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D. Leimer and S. Lesnoy, "Social Security and Private Saving: New Time-Series Evidence," Journal of Political Economy 90 (1982), 606-629.

O. Mitchell, J. Poterba, M. Warshawsky, and J. Brown, "New Evidence on the Money's Worth of Individual Annuities," American Economic Review (forthcoming).

2.3 Social Security and Labor Supply

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M. Baker and D. Benjamin – they have two other papers together in my files, one on the earnings test, and one on the SPA.

D. Blau, "Labor Force Dynamics of Older Men," Econometrica 62 (1994), 117-156.

G. Burtless, "Social Security, Unanticipated Benefit Increases, and the Timing of Retirement," Review of Economic Studies (1986), 781-805.

G. Burtless and R. Moffitt, "The Effect of Social Security Benefits on the Labor Supply of the Aged," in H. Aaron and G. Burtless, eds., Retirement and Economic Behavior (Washington: Brookings Institution, 1984), 135-175.

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C. Coile and J. Gruber, "Social Security and Retirement," mimeo, MIT, 1999.

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V. Crawford and D. Lilien, "Social Security and the Retirement Decision," Quarterly Journal of Economics 96 (August 1981), 505-529.

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C. Ruhm, "Secular Changes in the Work and Retirement Patterns of Older Men," Journal of Human Resources 30 (1995), 362-385.

J. Rust and C. Phelan, "How Social Security and Medicare Affect Retirement Behavior in a World of Incomplete Markets," Econometrica 65 (July 1997), 781-832.

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J. Stock and D. Wise, "Pensions, the Option Value of Work, and Retirement," Econometrica 58 (September 1990), 1151-1180.

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H. Aaron and R. Reischauer, Countdown to Reform: The Great Social Security Debate. Washington, D.C.: Brookings Institution, forthcoming.

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K. Smetters, "Investing the Social Security Trust Fund in Equity: An Option Pricing Approach," Technical Paper 1997-1, Congressional Budget Office Macroeconomic Analysis and Tax Analysis Divisions.

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3. Unemployment Insurance

3.1 Unemployment Insurance – Theory

D. Acemoglu and R. Shimer, "Efficient Unemployment Insurance," mimeo, MIT, October 1997.

A. Atkeson and R. Lucas, "Efficiency and Equality in a Simple Model of Efficient Unemployment Insurance," Journal of Economic Theory 66 (1995), 64-68.

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K. Burdett and R. Wright, "Unemployment Insurance and Short Time Compensation: The Effects of Layoffs, Hours per Worker, and Wages," Journal of Political Economy 97 (1989), 1479-1496.

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3.2 Unemployment Insurance and Worker Behavior

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K. Baicker, C. Goldin, and L. Katz, "A Distinctive System: Origins and Impacts of U.S. Unemployment Compensation," mimeo, Harvard University

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3.3 Unemployment Insurance and Firm Behavior

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4. Workers' Compensation

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5. Disability Insurance

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6. Government Transfer Programs: Welfare

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