Course: Applied Public Economics
Faculty: Hannes Muller and Ada Ferrer-i-Carbonell
Term: Second term
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Web page:
Office Hours: Upon request

Description:
The course consists of two parts. The first part will focus on the subjective well-being literature, as well as other subjective measures (notably personality measures) used in economics to understand individuals’ preferences and behavior. 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. Introduction to other subjective measures
   - Personality traits: the Big 5
   - Personality traits: Locus of Controls and political attitudes
   - Risk attitudes

2. A glance into the most relevant topics:
   - Macro-economic variables
   - Wages and income: optimal taxation
   - Political Institutions
   - Preference based valuation methods
   - Labor market
     Own unemployment & unemployment rate
     Reverse causality: happiness to productivity
     Reverse causality: job to health
   - Happiness & other relevant policy variables: Health & the environment
   - Inequality & poverty & adaptation to it
References:

Additional references will be provided during the course.


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


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 analyse how the tension between competence and political power in the bureaucracy affect efficiency and social peace.


**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:
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.

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.


Evaluation System:

Students have to hand in a final paper of about 10 pages that will count as 75% 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 15% 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?