SPI 511c: Microeconomic Analysis for Policymakers  
(Advanced)  
Princeton University

Professors:  
Owen M. Zidar, Henrik J. Kleven

Course Outline:  
This course provides an introduction to microeconomic policy analysis at an advanced level. The course will explore several policy areas and focus on applied economic and empirical methods to show how economists combine theory and data to evaluate policies. The goal is to enhance applied modeling skills, model-based thinking, and provide students with several practical examples of policy analysis. The first half of the course (taught by Professor Zidar) will analyze minimum wages, inequality, labor and capital markets, innovation, market power, and externalities with a focus on climate and vaccine policy. The second half of the course (taught by Professor Kleven) focuses on redistribution and social insurance policies, including taxation, welfare programs, parental leave policy, childcare policy, unemployment and health insurance.

Course Materials:  
Lecture notes will be made available online prior to each lecture. All required readings are available online and marked with [*] in the reading list below. A useful background reference is the textbook by Jonathan Gruber, Public Finance and Public Policy, 6th edition, 2019 (or earlier editions), but this book is optional. Students are expected to read the media articles listed under each topic.

Restrictions and Prerequisites:  
- Basic algebra and calculus such as graphing equations, differentiation, solving two equations and two unknowns, and optimization.  
- Any prior exposure to microeconomic and empirical tools will be helpful, but is not required. Slides on foundational tools will be provided and reviewed in section.

Grading:  
- Participation 10%  
- Problem Sets and Policy Memos 40% (can drop the lowest PS or memo grade)  
- Final Exam 50%

Schedule:  
Lectures: Mondays and Wednesdays 10:40-12:10pm  
Classes: P01 Friday 10:30-12:00pm, P02 Tuesday 3:00-4:30pm  
Office Hours by appointment: email erinmb@princeton.edu to schedule.

Policy Memos (subject to change):  
- Students will receive randomly assigned (pro or con) policy positions to defend in the discussion. They should prepare a one page, bullet point policy memo due midnight the
day before class on canvas, which will be made available to the class on the morning before class. The policy debate prompts are:

- 9/1 Minimum Wage:
  - “The United States should raise the federal minimum wage to $20 per hour”
- 9/13 Inequality:
  - “The rise of inequality since 1980 is primarily due to technological change”
- 9/20 Capital:
  - “Since the rise in inequality in the 21st century is primarily due to differences in capital accumulation rather than in labor income, the United States should increase taxes on capital”
  - [Bonus discussion – not for memo]
    “Capitalism is the worst form of economic system, except for all of the others”
- 9/27 Subsidizing electric vehicles:
  - “The United States should increase the generosity of Electric vehicle (EV) subsidies (e.g., the 7.5K federal tax credit for new all-electric and hybrids)”
- 8/4 Antitrust:
  - “The U.S. should prevent big technology companies from acquiring other firms”
- 8/11 Vaccines and externalities:
  - “The U.S. should mandate that every citizen has to get a Covid-19 vaccine”
- Other memo topics forthcoming.

**Background References**

**Public Policy and Price Theory:**


**Empirical Methods:**


**Lecture Topics and Readings**

1. **Labor Markets and the Minimum Wage Policy Debate [Zidar]**
Media and Policy Readings:


Academic Readings:


2. Government Intervention, Market Failures, and Inequality [Zidar]

Media Readings:


Academic Readings:


Supplemental Academic Readings on Inequality:


3. Capital

**Media Readings:**


Economist (2019). “Measuring the 1% Economists are rethinking the numbers on inequality.” November 28.


**Academic Readings:**


4. Microfoundations of Supply and Demand, Constrained Optimization, and Policy Applications

Media Readings:


Academic Readings:


5. Innovation Policy, Market Power, and Antitrust [Zidar]

Media Readings:


Jacob Goldstein and Noel King (2017). “Episode 787: Google is Big. Is that Bad?” Planet Money, NPR.


Academic Readings:


6. Externalities and Climate Policy [Zidar]

Media Readings:

Cicala, Steve, (2017). “Regulations can be costly and inefficient, but that doesn’t mean we should scrap them.” Forbes, March 14.


**Academic Readings:**

Currie, Janet and Walker, Reed, (2019). “What do economists have to say about the Clean Air Act 50 Years after the establishment of the Environmental Protection Agency?” Journal of Economic Perspectives, 33(4), 3-36.


Ashley C. Craig and James R. Hines Jr. (2020), Taxes as Pandemic Controls, National Tax Journal, 73:4, pp. 969-986

**7. Low-Income Support: EITC and Welfare Programs [Kleven]**

**Media Readings:**


Ferenstein, Greg, (2017). “Wages are stagnating, robots are taking our jobs. This Democrat has a $1.4 trillion solution.” Vox, September 16.

Matthews, Dylan, (2019). “A major new study finds the biggest federal work subsidy doesn’t promote work.” Vox, October 3.

Academic Readings:


8. Taxing the Rich: Inequality and Behavioral Responses [Kleven]

Media Readings:


Academic Readings:


9. **Tax Evasion and Tax Enforcement [Kleven]**

Media Readings:


Academic Readings:


10. Optimal Taxation and Redistribution [Kleven]

**Media Readings:**


**Academic Readings:**


11. Gender Inequality and Family Policies [Kleven]

**Media Readings:**


Academic Readings:


12. Social Insurance [Kleven]

Media Readings:


Academic Readings:


