

Economic Analysis of Social Policies

Academic Year: **2017/2018**

1st Semester

Instructor: *Miguel Gouveia*

Course Description:

EASP studies the mechanisms of social protection that are at the core of the Welfare State using an Economics' perspective. The course has three parts. The first part is a survey of basic results in Welfare Economics and Political Economy dealing with market failures, government policies and their failures. The second part deals with the distribution and redistribution of income, inequality and poverty. The third part covers social policies: income maintenance and poverty reduction, pensions, and unemployment insurance.

Course Content:

1. Introduction and motivation. The need for social insurance and a brief history of social institutions and policies. Some data on Social Protection in OECD countries.
2. Properties and failures of competitive markets. Government intervention. Values. Methodological individualism. Consumer sovereignty, admissibility of preferences and paternalism. Merit goods. Specific egalitarianism. Altruism.
3. Government and the redistribution of the income. Equity vs. efficiency. Social Welfare Functions. Three positive perspectives on redistribution: expropriation, altruism and insurance. The political economy of income redistribution. Public Provision of private goods and the socialization of commodities.
4. Distribution of Income: Data, unit of analysis. Instrumentos and measures of inequality.
5. Relative, absolute and subjective poverty. Measures of poverty. Poverty Dynamics.
6. Recent developments in measurement: Happiness, Inequality of Opportunity.
7. Consumption and Wealth. Indices of inequality: Distribution of wealth and the life cycle. The intergenerational transmission of inequality.
8. Poverty alleviation. Income maintenance programs. Universal programs versus categorical programs. Non take-up of programs and welfare stigma. Distribution in-kind versus distribution in money: paternalism or selection mechanism? Effects on labor supply, savings and investment in human capital.
9. Aging. Methods of demographic analysis. Mortality and birth rates. Mortality tables. Life expectancy. Dependency ratios. General implications of aging for social policy.
10. Social Security: Old-Age. The life cycle model and individual behavior. Annuities and life insurance. Reasons for public provision. Insurance and its market failures. "Pay-as-you-go" vs. funding. Defined benefit vs. defined contribution. The social

- security paradox and the steady state rates of return. The implicit debt of social security. The maturation of pay-as-you-go systems. Social security reforms.
11. (Time allowing) Job search. Unemployment insurance: rules, effects on behavior and welfare consequences. Alternatives to UI.

Course Objectives:

After taking this class students should be familiar with the main social policies in European countries and the political and economic forces that have shaped them. Students should also be able to understand the goals, economic incentives, results and costs of the most important social policies in particular from the perspective of their impact on economic inequality and poverty. They should also be able to conduct inequality and poverty studies using survey data.

Grading:

The evaluation consists of two tests, non-cumulative each 40%, and a group assignment (20%).

This year the group assignment will look at the idea of a "Basic Income". The group assignment will involve working with data to study income inequality and poverty in a quantitative fashion. Ideal group size should be 4.

Absences from tests not due to hospital inpatient stays are equivalent to a grade of zero. The review and regrading of tests requires a written request

Bibliography:

The lectures and lecture slides are mostly self-contained. References are useful mostly for those who want to study specific topics more in depth. The references most relevant for each topic will be indicated in class. Two nice references are:

- Barr, N., The Economics of the Welfare State, (5th Edition), (Oxford: University Press, 2012).
- Hindriks, J and G.D. Myles Intermediate Public Economics. (Cambridge: MIT Press, 2013)

Biography:

Miguel Gouveia has a PhD in Economics from the University of Rochester. He is an Associate Professor at the Catolica Lisbon School of Business and Economics and works in the areas of Public Economics, Social Policy, and Health Economics.

Contact(s) and Office hours:

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Classes meet at

Office hours day and schedule: Wednesday, after lunch, or by appointment

Tentative Calendar...

4/9	Lecture 1	Logistics. Social Protection: History and some statistics.
6/9	Lecture 2	Social Protection: History and some statistics (Cont.).
11/9	Lecture 3	Efficiency, no-envy and fair allocations.
13/9	Lecture 4	Market Failures. Consumer sovereignty and paternalism. Altruism
18/9	Lecture 5	Altruism (Cont.). Rawls and Nozick.
20/9	Lecture 6	Expropriation. Voting.
25/9	Lecture 7	Interest Groups. Rent seeking.
27/9	Lecture 8	Redistribution by socialization of private goods. Demand for Social Insurance.
2/10	Lecture 9	Demand for Social Insurance.
4/10	Lecture 10	Demand for Social Insurance.
9/10	Lecture 11	Income inequality measurement: data issues and unit of analysis.
11/10	Lecture 12	Inequality measures
16/10	NO CLASS	
17/10	Lecture 13	Make up session. Inequality measures (cont.)
18-26/10	Midterm tests	
30/10	Lecture 14	Poverty. Concepts and Measures.
6*/11	NO CLASS	
8*/11	NO CLASS	
13/11	Lecture 15	Poverty. Concepts and Measures (cont.).Poverty Dynamics.
15/11	Lecture 16	Poverty Dynamics. (cont.) Other wellbeing measures.
20/11	Lecture 17	Income Dynamics and Intergenerational inequality.
22/11	Lecture 18	Wealth Distribution and the Life cycle. Wealth inequality.
27/11* F	Lecture 19	Poverty alleviation programs.
29/11	Lecture 20	Poverty alleviation programs. (cont.)
4/12	Lecture 21	Demographics: Population aging.
6/12	Lecture 22	Social Security and Pensions.
11/12	Lecture 23	Social Security and Pensions (Cont)
TBD	Lecture 24	Unemployment Insurance.
13-20/12	Tests	
15-24/12	Final Exams	