Choose one of the following topics and address the questions being posed after reading carefully the suggested documents – and the course's notes. Collective work is permitted but each student must hand his/her own version of that work. Papers should not exceed 4 single-spaced pages.

Working and reflecting in groups is allowed – and encouraged - but papers must imperatively be personal.

**Topic 1: Taxation, taxable income and labor supply**

A major issue in taxation policies is the reaction of taxable income to a change in tax rates and ultimately the way tax receipts depend on tax rates.

The first three papers look precisely to that issue in the case of the 1986 tax reform in the US, other reforms in the US and various reforms in France.

A key component of the taxable income response to changes in the tax rate is the elasticity of labor supply. The next three papers deal with the estimation of this elasticity. The paper on UK uses a long sequence of tax reforms in the UK to derive elasticity estimates. It is very much an econometric paper. Comments on it should concentrate more on the economics of the analysis than on econometric issues.

Finally the paper by Saez discusses issues in using elasticity estimates to design optimal tax policies, or possibly Pareto improving tax policy reforms.

Based on these papers, what is your opinion on the capacity of economists to evaluate of tax reforms? Does the focus in this set of papers look the right one or do you think that some important dimensions of the evaluation are missing?

**Reading list**


2. Conditional cash transfer programs: the case of Progresa

Progresa has been celebrated as being one of the best randomized evaluations ever made of a social program. The following reading list includes the main final reports written on the evaluation of Progresa and some additional papers summarizing what has been learnt and pointing to potentially important indirect effects.

On the basis of these documents, what is your view on the quality of the evaluation made of Progresa? Randomization is certainly a big plus. But do the results obtained from the experimentation permit answering the main questions such a major policy initiative raises?

Before answering this question, you might have a quick look at the recent report produced by the World Bank on Conditional Cash Transfers in general.

Hint: The following reading list might seem long but, compared to other topics, most papers are short or purely descriptive

Reading list

COADY, D. (2000), The application of social cost-benefit analysis to the evaluation of Progresa: final report, International Food Research Institute, Washington DC

http://www.ifpri.org/sites/default/files/publications

http://www.ifpri.org/sites/default/files/publications


Additional reference

3) Pension reforms. From PYG (pay as you go or "répartition" in French) to "notional funded systems (Non-Financial Defined Contribution).

For several years now, there has been an acute debate on the needed reform of pension systems in developed countries. The short book by Bozio and Piketty presents some elements of that debate and proposes a rather deep reform of the present French "repartition" system. This reform is inspired from a reform that was actually implemented in Sweden, which can be described as a "virtual replica" of a funded system that keeps many features of "repartition".

The evaluation of such reforms is still incomplete. The question is how you would suggest to proceed before a decision is taken.

Caution: the question asked to you is that of the methodology to be followed and not whether the reform is "good" or "bad".

Guide to references

The article by Lindbeck and Persson gives a good synthesis of the literature. In particular, it presents the taxonomy that is most widely used to characterize pension systems. The book by Bozio and Piketty is a good example of a reform proposal. Palmer's article and recommenddd chapters in the book edited by holzman and Palmer give some detail on the Swedish reform and the way it may be conceptualized in terms of the way economists model pension systems. Finally, Kotlikoff's paper summarize the way in applied overlapping generation general equilibrium models work. Those models probably are the most useful simulation instruments in the area of pension reforms (in effect, such a reform is presented in the paper).

Reading list


LINDBECK, A., M. PERSSON (2003), The gain from pension reform, Journal of Economic Literature, 41(1), pp. 74-112


http://books.google.fr/books?id=ktXg_fEWdSMC&pg=PT414&lpg=PT414&dq=edward+palmer+s weden+pension+reform+NDC&source=bl&ots=Sml2Z_8-5N&sig=-uPywGbE5kMRl8PqYV0WkwsC11k&hl=fr&ei=quJRS5b1FZrEmwOnzbgQCGc&sa=X&oi=book_r esult&ct=result&resnum=3&ved=0CBIQ6AEwAg#v=onepage&q=edward%20palmer%20sweden %20pension%20reform%20NDC&f=false
4) Fighting global warming

The two books in the reading list today are the main references in matters of economic modelling of climate change. Start with the version of the DICE model designed and extensively used by William Nordhaus. The book – including the technical appendix – is rather short. There also are some chapters that you can skip (chapter 6 for instance) or read more quickly than others.

The main goal of the present exercise is to understand how the DICE model actually works and the specification of the various simulations (base run vs. others). Then the question you should focus on is whether the various policies that are proposed as alternatives to the status quo or to no intervention are evaluated ex-ante in a proper way. What is your opinion about simulated alternative policies? Can you think of better ones? Are there assumptions of specifications that you find unsatisfactory in the model or in its calibration? Do you think that the framework that is used – representative agents, global aggregation, .. - is adapted to the kind of policy faced by the global community? What do you think about the way uncertainty is dealt with?

Chapter 9 in Nordhaus compares the results of DICE with those obtained in the Stern review. You could refer briefly to the model used in the latter – see reference below, chapter 6 is the important modelling chapter – and list what you believe are the main differences between the two exercises and their relative strengths and weaknesses?

Reading list

NORDHAUS (2008) A question of balance: Weighing the Options on Global Warming policies, Yale University Press


5) Evaluating policies through cross-country regressions: institutional reform and development

A dominant view in current development economics is that institutions matter very much for growth and development strategies therefore should include institutional reforms of various types (fighting corruption, strengthening the rule of the law, protecting property rights, etc…).

Empirical evidence in support of such policies to a large extent consists of cross-country regressions on growth (Barro-type) with institutional characteristics on the right-hand side. In that way, it is presumably possible to say how many percentage points of growth could be obtained with a policy that would eliminate corruption.

Such an approach raises several issues – see course. Among the most important ones: a) The meaning of such regressions for the potential impact of an institutional reform in a specific country is doubtful. A cross-country regression detects 'mean' effects except if country heterogeneity is
explicitly accounted for. b) Regression coefficients may be biased by the endogeneity of regressors. To what extent could not we say that growth is affecting institutions or that both growth and institutions depend on unobserved third variables?

The question is thus that of what to make of results like in the Acemoglu et al. or the Keefer and Knack paper. Would you feel secure in recommending the government of a developing country embarking into an ambitious fight against corruption as a main growth promoting strategy? Does the kind of work illustrated by the papers in the reading list help evaluating the potential of such policies?

Guide to the reading list

Acemoglu et al. (2002) and Keefer and Knack (2003) show standard regressions proving the importance of institutions for development. Rodrik et al. (2002) and Glaeser et al. are economic critiques of this approach, whereas Deaton (2009) provides a general technical critique of the use of instrumental variables to correct for the endogeneity of regressors in growth regressions. Barro (1993) is mentioned in this reading list as the key reference to cross-country growth work.

Reading list


KNACK, S., P. KEEFER (2003), Institutions and economic performances: cross-country tests using alterative institutional measures, in S. Knack (ed), "Democceacy, Governance and Growth", pp 56-77

http://books.google.fr/books?hl=fr&lr=&id=XvtMXid1V6QC&oi=fnd&pg=PA56&dq=institutions+development+cross-country&ots=e7WmkPmDuE&sig=qnRCPrnu2JrNi48aOJw-XHzhRYMQ#v=onepage&q=institutions%20development%20cross-country&f=false


http://www.princeton.edu/~deaton/downloads/Instruments%20of%20development%20v1d_mar09_all.pdf
6) Evaluating policies through cross-country regressions: aid and development

An important issue in international development agencies is whether Official Development Assistance – or "aid" – is effective in promoting development. Many voices have been heard lately calling simply for canceling aid programs because they were counter-productive – see for instance the recent book by Dambisa Moyo, "Dead Aid".

For almost 30 years, economists have tried to evaluate the effectiveness of aid on development by running cross-country regressions of GDP per capita growth on several variables including aid. The paper by Clemens et al. in the list below gives a rather good summary of all this literature. Other entries in that list give examples of the various stages of the reflection on this issue whereas the paper by Deaton offers a critical view to some aspect of that literature.

If you were to advise an international development agency or be part of the public debate on the effectiveness of aid, what would be your position, based on that literature.

Reading list

Arndt, Jones, Tarp (2009), Aid and Growth Have We Come Full Circle?, UNU-WIDER, Discussion Paper 2009/05


