

# Lessons From Policies That Went Wrong

Instructor: Eyal Frank

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Lectures: Mondays and Wednesdays, 11:00 AM - 12:20 PM (Room 140B)

Office Hours: Tuesdays, 4:00 - 5:30 PM (Office 187)

**Course Description:** Effective policies require a good understanding of the setting they aim to regulate. Knowing what are some of the possible unintended consequences can help to plan for them in the policy design stage. Behavioral responses of those that are affected by the policy can reduce its effectiveness, and even result in outcomes that are the opposite of the original goal. In this course, we will review different policies that did not succeed in achieving their intended targets or had unintended consequences because they did not fully consider what will happen in their aftermath. We will cover policies across a wide range of outcomes: health, energy and environment, development and aid, education, violence reduction, and labor markets. The goal is to understand what went wrong in each case, and to generalize lessons for future policymaking. The bottom line of this course is not that policies are always doomed to fail, but that there is quite a bit to learn from policies that did not work out as well as intended. For each policy, we will start with the original problem it was trying to solve, cover some general theory and intuition around its proposed approach, and study a paper that empirically evaluated its impact. This course assumes some working knowledge in microeconomic theory and econometric analysis. No textbook is required for this course. The assignments are designed to be flexible enough to allow you to focus on your topics of interest, as well as to develop items you can include in your portfolio which you could present to potential employers.

## Goals:

- Develop critical thinking skills regarding public policies and the papers that evaluate them.
- Understand general concepts that when ignored can prevent a policy from achieving its goals.
- Strengthen skills of writing for an audience of policy makers.
- Strengthen visualization skills of raw data.

## Requirements & Grading:

- 40% Assignments (reading responses or short quantitative exercises).
- 30% Critical policy analysis paper (Midterm).
- 30% Final exam.

# Course Requirements

## Reading Responses (*3 required*)

Throughout the course you will need to submit 3 reading responses. You may choose the papers from the reading list (below). Each response has to be about a different paper. I advise you to submit the reading response either before or right after we cover the topic in class. **2 out of the 3 responses should be submitted before the midterm paper is due (11/12/2018)**. The last response is due by the final day of classes for the fall quarter. You should submit your own individual reading response. Reading responses are graded on a scale of 0-10.

Each submission should be about 1-page in length, and should include:

- A short summary of the paper (1 paragraph, worth 20% of the grade).
- Two *original* comments about the paper (worth 40% each). For example:
  - Things you liked or did not like about it.
  - A personal experience relevant to the paper.
  - Something you think the paper did not address well.
  - What did the paper help you understand about policymaking.

## **Graph Replication/Updating Assignment (*1 required*)**

Throughout the course we will review many figures in the papers we will cover. I want you to better understand these figures and how to create them. For this assignment, you will need to choose one of the papers, choose one of its figures (from either the main text or the appendix of the paper), and either replicate it using a different source of data, or update it with newer data. I advise you to focus on descriptive graphs and not graphs that show regression results. To allow you to choose a figure you find most interesting this assignment is due by the final day of classes in the fall quarter. You may work on this individually, or in groups of up to 3. This assignment will be graded on a scale of 0-10.

Your submission needs to include two separate pieces:

- One page with the graph and 1 paragraph of text which explains the graph. I encourage you to spend some time on making this page look well drafted so you can include it in your portfolio.
- Documentation of where you got the data, what you used to create the figure (submit either the code or spreadsheet in which you created it), the original graph (with a reference to the paper and page number where it appears), and how your version differs from the original graph (in terms of interpreting the different or updated data).

Grading of this assignment is based on:

- Layout of the figure. Make sure there are proper labels, with units of measurement where applicable. Annotate data points or events on the graph to highlight important features of the data (40%).
- Explanatory text. The 1 paragraph of text should help in reading and understanding the graph, while delivering its main message (20%).
- Comprehensive documentation. I should easily be able to understand how to create a similar figure like yours. Make sure to include the source of the data and the steps you took in preparing the figure (40%).

## **Midterm Paper (due by 11/12/2018 11:59 PM)**

Your midterm paper submission will be a 2-pages position paper of evaluating a currently discussed policy. This will be an opportunity to apply the critical evaluation of public policy we develop in the course and will provide you with yet another piece for your portfolio. You will need to

choose a recent policy from the last year or two (if there is some other policy you very much want to cover be sure to check with me first). Write a well researched and well referenced position paper about the problem the policy is meant to address, the main mechanisms and instruments the policy will use, and points in favor and against the policy. You each need to submit your individual paper. This assignment is graded on a scale of 0-100. The paper is graded based on the following components:

- Clear explanation of the problem the policy is addressing (20%).
- Clear explanation of the policy, how it works, how will it be enacted (20%).
- Including important numbers that are relevant to the policy (quantifying the current problem, estimated costs and benefits, order of magnitudes, etc.) (20%).
- Evaluation of the strengths and weakness of the policy. What features of the policy are setting it up for success or failure (40%)?

## **Final Exam**

The final exam will be a multiple choice exam where each question will have the following structure: An accurate and true statement about the material we covered in class will appear in squared brackets, “[].” Following the statement, there will either be a question or an additional statement followed by a question. The goal is to place the emphasis on understanding the material we covered and not on memorizing it. I will provide you with sample questions prior to the exam. This final exam will be graded on a scale of 0-100.

## **ADA Student Accommodations**

Any student who believes they may need assistance should inform the Office of Student Disability Services by the end of the first week of class. Once you have received an accommodation letter, it should be presented to the course instructor immediately.

For more information please visit: <https://disabilities.uchicago.edu/>

## **Academic Policies & Requirements**

Make sure you review the student manual regarding academic honesty policies.

The manual is available **here**.

# Schedule

## Week 1: Public Policies & Systems Thinking (10/1, 10/3)

Introduction to the course and some big ideas about why policies sometimes work and sometimes they do not.

Readings:

- Kevin M Murphy, Andrei Shleifer, and Robert W Vishny. “Industrialization and the Big Push”. *The Journal of Political Economy* 97.5 (1989), pp. 1003–1026
- Russ Roberts and Sam Peltzman. *Peltzman on Regulation / EconTalk / Library of Economics and Liberty*. 2006
- Donella H Meadows. *Thinking in Systems: A Primer*. Chelsea Green Publishing, 2008

## Week 2: Urban Housing Markets & Interventions (10/8, 10/10)

Evaluating policies that aim to control housing prices and reduce urban poverty.

Readings:

- Robert Collinson and Peter Ganong. “How Do Changes in Housing Voucher Design Affect Rent and Neighborhood Quality?” *American Economic Journal: Economic Policy* 10.2 (2018), pp. 62–89
- Rebecca Diamond, Timothy McQuade, and Franklin Qian. “The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco”. *NBER Working Paper No. 24181* (2018)
- Sharon Barnhardt, Erica Field, and Rohini Pande. “Moving to Opportunity or Isolation? Network Effects of a Randomized Housing Lottery in Urban India”. *American Economic Journal. Applied Economics* 9.1 (2017), pp. 1–32

## Week 3: Promoting Education in Low Income Countries (10/15, 10/17)

Increasing human capital accumulation in low income countries is a key challenge. This week we study how different strategies performed. Readings:

- Esther Duflo. “The medium run effects of educational expansion: evidence from a large school construction program in Indonesia”. *Journal of Development Economics* 74.1 (2004), pp. 163–197
- Jishnu Das et al. “School Inputs, Household Substitution, and Test Scores”. *American Economic Journal. Applied Economics* 5.2 (2013), pp. 29–57
- Paul Glewwe, Michael Kremer, and Sylvie Moulin. “Many Children Left Behind? Textbooks and Test Scores in Kenya”. *American Economic Journal. Applied Economics* 1.1 (2009), pp. 112–135
- Anjali Adukia. “Sanitation and Education”. *American Economic Journal. Applied Economics* 9.2 (2017), pp. 23–59

## **Week 4: Education Policies (10/22, 10/24)**

Shifting from specific settings in low income countries, we focus on more general education policies that had different targets.

Readings:

- César Martinelli et al. “Cheating and Incentives: Learning from a Policy Experiment”. *American Economic Journal: Economic Policy* 10.1 (2018), pp. 298–325
- Scott E Carrell, Bruce I Sacerdote, and James E West. “From Natural Variation to Optimal Policy? The Importance of Endogenous Peer Group Formation”. *Econometrica* 81.3 (2013), pp. 855–882
- Sarah J Reber. “Court-Ordered Desegregation: Successes and Failures Integrating American Schools since Brown versus Board of Education”. *The Journal of Human Resources* 40.3 (2005), pp. 559–590

## **Week 5: Violence & Policy (10/29, 10/31)**

Violence is sometimes used as a policy instrument, and at other times it is an unintended consequence of policy. We review papers that examine these relationships.

Readings:

- Melissa Dell and Pablo Querubin. “Nation Building Through Foreign Intervention: Evidence from Discontinuities in Military Strategies”. *The Quarterly Journal of Economics* (2017)

- Daron Acemoglu et al. “The Perils of High-Powered Incentives: Evidence from Colombia’s False Positives”. *NBER Working Paper No. 22617* (2016)
- Ariaster B Chimeli and Rodrigo R Soares. “The Use of Violence in Illegal Markets: Evidence from Mahogany Trade in the Brazilian Amazon”. *American Economic Journal. Applied Economics* 9.4 (2017), pp. 30–57
- Jillian B Carr and Jennifer L Doleac. “Keep the Kids Inside? Juvenile Curfews and Urban Gun Violence”. *The Review of Economics and Statistics* (2018)

## **Week 6: Environmental Pollution (11/5, 11/7)**

We study how ambient pollution levels can increase (or fail to decrease) following policy measures.

Readings:

- Lucas W Davis. “The Effect of Driving Restrictions on Air Quality in Mexico City”. *The Journal of Political Economy* 116.1 (2008), pp. 38–81
- Maximilian Auffhammer and Ryan Kellogg. “Clearing the Air? The Effects of Gasoline Content Regulation on Air Quality”. *The American Economic Review* 101.6 (2011), pp. 2687–2722
- Matthew Gibson. “Regulation-induced pollution substitution”. *The Review of Economics and Statistics* (2018)
- Avraham Ebenstein et al. “New evidence on the impact of sustained exposure to air pollution on life expectancy from China’s Huai River Policy”. *Proceedings of the National Academy of Sciences* 114.39 (2017), pp. 10384–10389

**2/3 Reading responses should be submitted by 11/12/2018 11:59 PM**

**MIDTERM PAPER DUE BY 11/12/2018 11:59 PM**

## **Week 7: Targeting Energy Efficiency Goals (11/12, 11/14)**

A wide range of policies aim to increase energy efficiency in electricity use and fuel use, yet we often find large differences between what we thought will happen and what ends up happening.

Readings:

- Mark R Jacobsen. “Fuel Economy and Safety: The Influences of Vehicle Class and Driver Behavior”. *American Economic Journal. Applied Economics* 5.3 (2013), pp. 1–26
- Grant D Jacobsen and Matthew J Kotchen. “Are building codes effective at saving energy? Evidence from residential billing data in Florida”. *The Review of Economics and Statistics* 95.1 (2013), pp. 34–49
- Arik Levinson. “How Much Energy Do Building Energy Codes Save? Evidence from California Houses”. *The American Economic Review* 106.10 (2016), pp. 2867–2894
- Koichiro Ito and James Sallee. “The Economics of Attribute-Based Regulation: Theory and Evidence from Fuel-Economy Standards”. *The Review of Economics and Statistics* (2018)
- Kenneth Gillingham et al. “The rebound effect is overplayed”. *Nature* 493.7433 (2013), pp. 475–476

## **Week 8: Unintended Behaviors and Health (11/19, 11/21)**

We study several unintended consequences of policies in health that did not anticipate a strong behavioral response.

Readings:

- Douglas Almond and Joseph J Doyle. “After Midnight: A Regression Discontinuity Design in Length of Postpartum Hospital Stays”. *American Economic Journal: Economic Policy* 3.3 (2011), pp. 1–34
- Willa Friedman. “Antiretroviral drug access and behavior change”. *Working Paper* (2015)
- Eugenia Tognotti. “Lessons from the history of quarantine, from plague to influenza A”. *Emerging Infectious Diseases* 19.2 (2013), pp. 254–259
- Abby Alpert, David Powell, and Rosalie Liccardo Pacula. “Supply-Side Drug Policy in the Presence of Substitutes: Evidence from the Introduction of Abuse-Deterrent Opioids”. *American Economic Journal: Economic Policy* (2018)

## **Week 9: Regulating Labor Markets (11/26, 11/28)**

Trying to correct distortions in wages and employment can sometimes backfire and make things worse than they were to begin with.

Readings:



- Luis Garicano, Claire Lelarge, and John Van Reenen. “Firm Size Distortions and the Productivity Distribution: Evidence from France”. *The American Economic Review* 106.11 (2016), pp. 3439–3479
- Amanda Agan and Sonja Starr. “Ban the Box, Criminal Records, and Racial Discrimination: A Field Experiment”. *The Quarterly Journal of Economics* 133.1 (2018), pp. 191–235
- Carol Propper and John Van Reenen. “Can Pay Regulation Kill? Panel Data Evidence on the Effect of Labor Markets on Hospital Performance”. *The Journal of Political Economy* 118.2 (2010), pp. 222–273

## **Week 10: Public Finance (12/3, 12/5)**

We conclude with several different policies that ended up creating new problems.

Readings:

- Caroline M Hoxby. “All School Finance Equalizations are Not Created Equal”. *The Quarterly Journal of Economics* 116.4 (2001), pp. 1189–1231
- Erwann O Michel-Kerjan. “Catastrophe Economics: The National Flood Insurance Program”. *The Journal of Economic Perspectives* 24.4 (2010), pp. 165–186
- Juan Carlos Suárez Serrato. “Unintended Consequences of Eliminating Tax Havens”. *NBER Working Paper No. 24850* (2018)
- George Loewenstein, Cass R Sunstein, and Russell Golman. “Disclosure: Psychology Changes Everything”. *Annual Review of Economics* 6.1 (2014), pp. 391–419

**Final reading response, and graph assignment should be submitted by 12/6/2018 11:59 PM**