Lessons From Policies That Went Wrong

Instructor: Eyal Frank

eyalfrank@uchicago.edu

Lectures: Mondays and Wednesdays, 2:00 - 3:20 PM (Room 0010)

Office Hours: Wednesdays, 11:00 AM - 12:30 PM (Office 2057)

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. The reading responses should be submitted **before** we cover the paper in class. This means you need to pay attention to the syllabus and notice when we are about to cover a paper you want to use for your submission. **2 out of the 3 responses should be submitted before the midterm paper is due (11/8/2019)**. The last response is due by **12/4/2019**. You should submit your own individual reading responses. Reading responses are graded on a scale of 0-10. Submission of the reading responses will be on Canvas.

Each submission should be up to 1-page in length (see formatting guidelines below), and should include:

- A short summary of the paper (no more than 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.

- Avoid simply summarizing the paper.

- Be concise. Writing more than one page will result in points taken off.

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 12/4/2019**. You may work on this individually, or in groups of up to 3. This assignment will be graded on a scale of 0-10. Submission will be through Canvas.

Your submission needs to include two separate pieces:

- One page with the graph and one paragraph of text which explains the graph.

- 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 11/8/2019 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. Submission will be through Canvas. 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 (12/11/2019, 1:00 - 3:50 PM, Room 0010)

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.

Formatting Guidelines

For each of the assignments you turn in, please use the following formatting:

- 1 inch margins.

- 12 points font size.

- Single spaced text.

- Any title or subtitle should be in bold.

Policy on Late Submissions

Any late submission will be penalized by 20 points for each day past the due date. The schedule is extremely flexible and with minimal planning ahead you should not have any trouble meeting the few deadlines defined above. As such, deviations from those deadlines are designed to be very costly.

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

Please review in detail the policies found **here**. Also, make sure you review the student manual regarding academic honesty policies. The manual is available **here**.

Schedule

Module 1: Public Policies & Systems Thinking

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

Module 2: Urban Housing Markets & Interventions

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

- David P Sims. "Out of control: What can we learn from the end of Massachusetts rent control?" *Journal of urban economics* 61.1 (2007), pp. 129–151

- David H Autor, Christopher J Palmer, and Parag A Pathak. "Housing Market Spillovers: Evidence from the End of Rent Control in Cambridge, Massachusetts". *The Journal of Political Economy* 122.3 (2014), pp. 661–717

- 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

Module 3: Promoting Education in Low Income Countries

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

Module 4: Education Policies

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

Module 5: Violence & Policy

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". *Review of Economics and Statistics* (2018)

- Dominic P Parker, Jeremy D Foltz, and David Elsea. "Unintended Consequences of Sanctions for Human Rights: Conflict Minerals and Infant Mortality". *The Journal of Law and Economics* 59.4 (2016), pp. 731–774

- Dominic P Parker and Bryan Vadheim. "Resource Cursed or Policy Cursed? US Regulation of Conflict Minerals and Violence in the Congo". *Journal of the Association of Environmental and Resource Economists* 4.1 (2017), pp. 1–49

- Benjamin Crost, Joseph Felter, and Patrick Johnston. "Aid Under Fire: Development Projects and Civil Conflict". *American Economic Review* 104.6 (2014), pp. 1833–1856

Module 6: Environmental Pollution

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

- Emilio Gutierrez and Adrian Rubli. "Short-Term Health Effects of Soda Taxes in Areas with Low Access to Safe Drinking Water". *Working Paper* (2019)

Module 7: Targeting Energy Efficiency Goals

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 though 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". *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

Module 8: Unintended Behaviors & Health

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". *Journal of Development Economics* 135 (2018), pp. 392–411

- 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)

- Jennifer L Doleac and Anita Mukherjee. "The Moral Hazard of Lifesaving Innovations: Naloxone Access, Opioid Abuse, and Crime". *Working Paper* (2018)

- Nina Buchmann et al. "Throwing the Baby out with the Drinking Water: Unintended Consequences of Arsenic Mitigation Efforts in Bangladesh". *NBER Working Paper No. 25729* (2019)

Module 9: Regulating Labor Markets

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

    - When things go horribly wrong: https://www.nytimes.com/2019/07/09/world/europe/france-telecom-trial.html

- 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

- David Anderson et al. "On a Firm's Optimal Response to Pressure for Gender Pay Equity". *Organization Science* 30.1 (2019), pp. 214–231

Module 10: Public Finance

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)