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Economics 336: Analytical Methods for Public Policy (Fall 2017)

An important practical objective of empirical economic research is to predict the consequences of alternative public policies. Economists combine data with assumptions to draw conclusions about policy impacts. The strength and credibility of these conclusions depend on the data and assumptions brought to bear, as well as on the analytical methods used. This course studies basic methodological problems in policy analysis and examines how economists perform policy analysis in practice. The methodological discussion places special emphasis on problems of extrapolation that arise whenever one attempts to evaluate policies that differ from the status quo. The discussion of practice examines actual research analyzing a range of policy questions.

The prerequisites are courses in microeconomics at or above Economics 310-1 and econometrics at or above Economics 281 or 381-1. Instruction includes lectures and class discussion. Examination of methodology and applications occurs throughout the course. Grading is based on multiple short essays/problems (10 points), a midterm briefing paper on an assigned topic in policy analysis (30 points), and a student-initiated final research paper that assesses some aspect of policy research (60 points).

Texts
C. Manski, *Public Policy in an Uncertain World* (PPUW), Harvard University Press, 2013 (required)
C. Manski, *Identification for Prediction and Decision* (IPD), Harvard University Press, 2007 (required)

Teaching Assistant: Richard Peck, RichardPeck2021@u.Northwestern.edu

Syllabus (tentative)

Policy Analysis with Incredible Certitude (9/19, 9/21, 9/26)
PPUW Chapter 1
Manski, C., "Communicating Uncertainty in Official Economic Statistics: An Appraisal Fifty Years after Morgenstern," *Journal of Economic Literature*, Vol. 53, No. 3, 2015, pp. 631-653.

Predicting Policy Outcomes (9/28, 10/3, 10/5, 10/10, 10/12, 10/17)
PPUW Chapter 2; IPD Chapters 2 and 7
Manski, C. and J. Pepper, "How Do Right-to-Carry Laws Affect Crime Rates? Coping with Ambiguity Using Bounded-Variation Assumptions," *Review of Economics and Statistics*, 2017, forthcoming.

Midterm Essay Due: Wednesday October 18, 5:00 PM

Predicting Behavior (10/19, 10/24, 10/26, 10/31, 11/2)
PPUW Chapter 3; IPD Chapters 13 and 14
Manski, C., "Survey Measurement of Probabilistic Macroeconomic Expectations: Progress and Promise," *NBER Macroeconomics Annual 2017*, Vol. 32, forthcoming.

Planning with Partial Knowledge (11/7, 11/9, 11/14, 11/16, 11/21)
PPUW Chapters 4 and 5; IPD Chapter 11
Manski, C., "Mandating Vaccination with Unknown Indirect Effects," *Journal of Public Economics Theory*, Vol. 19, No. 3, 2017, pp. 603-619.

Final Paper Due: Monday December 4, 9:00 AM

Tentative Lecture Schedule

9/19 - introduction to course and opening part of "policy analysis with incredible certitude"

9/21 - typology and cases of incredible certitude

9/26 - communicating uncertainty in official statistics

9/28 - conditional prediction (IPD chap. 1)

10/3 - missing outcomes (IPD chap. 2)

10/5 - analysis of treatment response, no assumptions and randomized experiments (IPD chap. 7)

10/10 and 10/12 - analysis of treatment response continued (IPD chap. 7)

10/17 - right-to-carry paper

10/19 - revealed preference analysis of an individual, labor supply and income taxation

10/24 and 10/26 - random utility models of discrete choice

10/31 and 11/2 - measurement of expectations

11/7 and 11/9 - introduction to decision theory: dominance, expected utility, maximin

11/14 and 11/16 - minimax regret, application to treatment choice

11/21 - mandating vaccination paper

The topics to be discussed in the sections will be chosen as the course progresses.