

## **Economic Analysis of Social Policies**

2014/2015

1<sup>st</sup> Semester

**Miguel Gouveia**

### Course Description:

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

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### 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, Consumption and Wealth. Indices of inequality: Distribution of wealth and the life cycle. The intergenerational transmission of inequality.
  5. Relative and absolute poverty. Measures of poverty. Poverty Dynamics.
  6. Recent developments in measurement: Happiness, Inequality of Opportunity.
  7. 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.
  8. Aging. Methods of demographic analysis. Mortality and birth rates. Mortality tables. Life expectancy. Dependency ratios. General implications of aging for social policy.
  9. 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.
  10. (Time allowing) Job search. Unemployment insurance: rules, effects on behavior and welfare consequences. Alternatives to UI.
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### 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.

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### Grading:

- The evaluation consists of two tests, non-cumulative, and a group assignment.
  - The group assignment will involve working with data to study income inequality and poverty in a quantitative fashion. Ideal group size should be 4. The weights determining the course grade are 40% for each test and 20% for the assignment.
  - 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
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### 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*, (4th Edition), (Oxford: University Press, 2004).

Hindriks, J and G.D. Myles *Intermediate Public Economics*. (Cambridge: MIT Press, 2013)

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### Biography:

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

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### Classes, Contacts and Office hours:

Office: 5304 Telephone: External 217214244 Internal 4904

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Classes meet at 11:00 pm on Mondays (Room 520-A) and Wednesdays (Room 520-B)

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

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