

Social Insurance

2022-2023 Third Module

Course Information

Instructor:

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Office Hours: Mondays & Thursdays 2:00 pm - 3:00 pm

Teaching Assistant: TBD

Classes:

Lectures: Mondays & Thursdays, 10:30 am – 12:20 pm

Venue:

1. Course Description

1.1 Context

Course overview:

This course introduces students to the literature on social insurance focused on understanding the ways of insuring households' consumption. We will approach these question both theoretically and empirically in various geographical contexts, including China, India, the US and other countries in Europe and Africa. Our focus will be broad and include both formal (progressive tax systems, unemployment, health, disability insurance etc) and informal - more often found in developing countries - ways of doing so (through reciprocal risk sharing transfers between family and community members, migration, adjustments in labor supply or investments).

We start off with a short introduction and revision of the permanent income hypothesis after which we introduce seminal papers documenting extent of consumption insurance. We preview potential channels allowing for this insurance and frictions limiting its extent. We distinguish consumption insurance with respect to permanent and transitory income shocks. We also study interaction between economic growth and insurance by focusing on the case of the Chinese growth miracle.

Afterwards, we move on to discussing social insurance in labor markets and formally introduce moral hazard and adverse selection as frictions limiting consumption insurance. We study how governments raise tax revenue and finance statutory insurance programs. We study efficient design of progressive income tax schedules, unemployment benefits, health and disability insurance. Relatedly, we study education and human capital formation in presence of distortionary risks. Crucially, we dive into understanding why and how social insurance can mitigate these frictions.

Next, we study literature employing heterogeneous agent models to study how risk, insurance and structure of financial markets interact with occupational choice and entrepreneurship. We move on to entrepreneurship in developing countries by focusing on agriculture and how households mitigate idiosyncratic and aggregate risks. To analyse these questions we also

introduce the model of risk sharing with limited commitment. Relatedly, we study migration as a risk coping strategy. We also touch upon marriage as a within-household consumption smoothing mechanism.

We finish with topics related to information and coordination failures resulting in equilibrium multiplicity with applications to understanding differences between Europe-US welfare states and superstitions in developing countries.

Prerequisites:

- Passed Advanced Macroeconomics I and II.
- Passed Advanced Microeconomics I and II.

1.2 Textbooks and Reading Materials

Class will be mostly based on academic papers listed below (the exact schedule or order may be subject to change and is open to discussion).

2. Learning Outcomes

2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	Yes, course evaluation will be based on preparation of a presentation and a project.
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	Yes, through in-class discussions and presentations.
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	Yes, group discussions and group assignments.
	2.2. Students will be able to apply leadership theories and related skills.	No.
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	No.
	3.2. Our students will practice ethics in the duration of the program.	Yes, building strict discipline in class and work ethic through regular assignments.
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	Yes, global economy micro- and macroeconomic issues will be introduced.
5. Our graduates will be skilled in problem-solving and critical	5.1. Our students will have a good understanding of fundamental theories in their fields.	Yes, assessment of fundamental consumption,

thinking.		investment and insurance theories.
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	Yes, assessment of problem solving in the end-of-class project assignment.
	5.3. Our students will demonstrate competency in critical thinking.	Yes, one of major goals of this course.

2.2 Course specific objectives

2.3 Assessment/Grading Details

Mini project proposal (60%): To be delivered after the course ends. Projects can be written individually or in teams of max. 2 students.

Paper presentation (35%): The list of papers proposed for presentation will be distributed later. I am also open to paper proposals from students. Presentations can be made in groups (max. size of groups to be agreed upon later).

Class Participation (5%): You can get additional credit for active class participation (critical discussions of papers covered etc.).

Class discipline - read carefully. Violating each will deduct total score by 5 points.

1, **no mobile phone use.** Laptops/tablets permitted only for taking notes.

2, entry and exits within class time should be quiet and non-distracting.

2.4 Academic Honesty and Plagiarism

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

3. Topics and Teaching Schedule

1. Empirical consumption insurance patterns

- Townsend, R. “Risk and Insurance in Village India” ECMA 1994
- Udry, C. “Risk and Insurance in a Rural Credit Market: An Empirical Investigation in Northern Nigeria” REStud 1994
- Blundell, R., Preston, I. and Pistaferri, L. “Consumption Inequality and Partial Insurance” AER 2008
- Santaaulalia-Llopis, R. and Zheng, Y. “The Price of Growth: Consumption Insurance in China 1989-2009” AEJ Macro 2018
- Attanasio, O., Meghir, C., Mommaerts, C. and Zheng, Y. “Growing Apart: Declining Within- and Across-Locality Insurance in Rural China” working paper 2022

2. Labor markets: taxation, unemployment, health and disability insurance

- Cahuc P., Carcillo, S. and Zylberberg, A. “Labor Economics” (2nd Edition) – chapters 12 and 13.
- Heathcote, J., Storesletten, K. and Violante, G. “Optimal Tax Progressivity: An Analytical Framework” QJE 2017
- Handel, B., Hendel, I. and Whinston, M. „Equilibria in Health Exchanges: Adverse Selection vs. Reclassification Risk” ECMA 2015
- Golosov, M. and Tsyvinski, A. “Designing Optimal Disability Insurance: A Case for Asset Testing” JPE 2006

3. Education

- Krueger, D. and Ludwig, A. “On the optimal provision of social insurance: Progressive taxation versus education subsidies in general equilibrium” JME 2016
- Matsuda, K. and Mazur, K. “College education and income contingent loans in equilibrium” JME 2022
- Foster, A. and Gehrke, E. “Start what you finish! Ex ante risk and schooling investments in the presence of dynamic complementarity” working paper 2022

4. Entrepreneurship

- Buera, F., Kaboski, J. and Shin, Y. “Finance and Development: A Tale of Two Sectors” AER 2011
- Holter, H., Stepanchuk, S. and Wang, Y. “Taxation and entrepreneurship in the US” working paper 2023
- Chari, V.V., Kehoe, P., Pastorino, E. and Salgado, S. “Taxing the rich” unpublished manuscript 2022

5. Agriculture

- Donovan, K. “The equilibrium impact of agricultural risk on intermediate inputs and aggregate productivity” REStud 2021
- Karlan, D., Osei, R., Osei-Akoto, I., Udry, C. „Agricultural decisions after relaxing credit and risk constraints” QJE 2014
- Mazur, K. “Sharing Risk to Avoid Tragedy: Informal Insurance and Irrigation in Village Economies” JDE 2023

6. Migration and within family insurance

- Meghir, C., Mobarak, M., Mommaerts, C. and Morten, M. “Migration and informal insurance” REStud 2021

- Rosenzweig, M. and Stark, O. „Consumption smoothing, migration and marriage: evidence from rural India” JPE 1989
- Dustmann, C., Fasani, F., Meng, X. and Minale, L. „Risk attitudes and household migration decisions“ JHR 2020

7. Coordination failures

- Alesina, A. and Angeletos G. “Fairness and redistribution” AER 2005
- Nunn, N. and Sanchez de la Sierra, R. “Why Being Wrong Can Be Right: Magical Warfare Technologies and the Persistence of False Beliefs” AER P&P 2017