



Kyiv School of Economics, 2008

Economic Policy Analysis I

Term II, 2008

Instructor: Denys Nizalov (nizalov@eerc.kiev.ua)

Class Web Page: [\\kitty\Teaching\Dr.Nizalov\Policy_Analysis_I](http://kitty/Teaching/Dr.Nizalov/Policy_Analysis_I)

Course Description:

Policy makers, members of local and state governments and general public share concerns about the effect of various public actions. These actions could be large or small projects (e.g., a bridge construction or a provision of subsidy to a natural monopolist). They also could be local or state policies (e.g., provision of tax abatement to a given industry or region, or food stamps to low income families). This course will introduce a set of practical tools for empirical analysis of such actions.

The course is designed to provide an intensive overview of two core methods of policy evaluation: statistical (econometric) and cost-benefit analysis.

Course Objectives:

1. To familiarize participants with the modern methods of program and policy evaluation.
2. To familiarize participants with the major modes of data collection used in program evaluation
3. To provide an understanding of the theoretical basis for alternative evaluation designs.
4. To carry out and interpret the results of statistical analysis of projects and policies.
5. To carry out and interpret the results of cost-benefit analysis.
6. To understand the process of communicating evaluation results and the effects on utilization of evaluation results

Textbooks:

- Weiss, Carol H. (1998). Evaluation, 2nd Edition, Prentice Hall: Upper Saddle River, NJ.
- Gittinger, J. Price.(1982). Economic Analysis of Agricultural Projects (2nd ed.). The Johns Hopkins University Press, Mariland.
- Gramlich, Edward M. (1990). A Guide to Benefit-Cost Analysis (2nd ed.). NJ: Prenlice Hall.

The instructor will provide readings, case studies, and other course materials as required.

Grading:

Assignments:	30%
Midterm:	30%
Final Exam:	<u>40%</u>
Total	100%

Students can earn up to 10% worth of bonus points for class participation.

Tentative Topics Outline**1. Introduction**

Overview: Definitions of policy evaluation and its objectives. Stake holders and evaluation roles. Theories, Alternative Approaches, and Standards. Quantitative vs. Qualitative. *Ex-ante* vs. *ex-post* evaluations. Evaluation of policy process, effect and cost efficiency. Formulating an evaluation task.

Reading:

- Sourcebook for Evaluating Global and Regional Partnership Programs: Indicative Principles and Standards. 2007. IEG–World Bank, Washington, D.C.
- Weiss, Chapters 1, 2, 3, and 5
- American Evaluation Association's *Guiding Principles* (www.eval.org)

2. Assessing Policy Effect**2.1. Measuring policy treatment and policy outcomes**

Outcomes, process and proxy measures. Multiple measures and triangulation. Reliability. Validity. Spillover effect. Intensive and Extensive margins and average effect of treatment. Nonlinearity and heterogeneity of treatment effect.

Reading:

- Weiss, Chapters 6

2.2. Program Evaluation Design

Treatment and control groups. Design Criteria and Experimental Designs. Quasi-Experimental Designs. Units of analysis. Data Collection Methods: Surveys, Interviewing (Individuals and Groups), Other Methods.

Reading:

- Weiss, Chapter 4;

2.3. Tools for analysis of experimental data

Designing experiments. Assessing population statistics. Hypothesis testing. Difference in Differences Estimation.

Reading:

- Weiss, Chapter 9

2.4. Tools for analysis of Quasi-Experimental data

Propensity Score. Non-equivalent Control Group Designs. Regression Discontinuity. Interrupted Time-Series Designs. Instrumental Variables. Bounds. Quantile treatment effects. Heckman selection corrections and control function approaches. Fixed Effect Estimation

Reading:

- Weiss, Chapter 8
- Frölich, Markus. 2004. "Finite Sample Properties of Propensity Score Matching and Weighting Estimators." *Review of Economics and Statistics* 86(1): 77-90.
- Heckman, James and Jeffrey Smith. 1995. "Assessing the Case for Social Experiments." *Journal of Economic Perspectives*. 9(2): 85-100.
- Burtless, Gary. 1995. "The Case for Randomized Field Trials in Economic and Policy Research." *Journal of Economic Perspectives*. 9(2): 63-84.
- Heckman, James, Jeffrey Smith and Nancy Clements. 1997. "Making the Most Out of Programme Evaluations and Social Experiments: Accounting for Heterogeneity in Programme Impacts." *Review of Economic Studies*. 64(4): 487-535.
- Heckman, James, Neil Hohmann, Jeffrey Smith and Michael Khoo. 2000. "Substitution and Drop Out Bias in Social Experiments: A Study

3. Assessing Cost Effectiveness

3.1. Introduction to Cost-Benefit Analysis (CBA)

Ex-ante analysis. Identifying costs and benefits. Tangible vs. intangible costs and benefits. Evaluation criteria.

Reading:

- Gittinger, Part 1.
- Gramlich, Ch.1, "Introduction"; Ch.3, "Fundamental Principles of CBA"

3.2. Financial aspects of analysis

Pricing costs and benefits. Traded vs. non-traded goods. Discounting and inflation. Risk analysis.

Reading:

- Gittinger, Part 2.
- Gramlich, Ch.4, "Valuation of benefits and costs"

3.3. Economic aspects of analysis

Economic values. Parity prices. Foreign exchange premium. Analysis of transportation and agricultural projects. Budget impact. Regional economic impact analysis.

Reading:

- Gittinger, Part 3-4.
- Gramlich, Ch.7, "The Gains and Losses of Different Groups"

4. Interpreting and reporting the evaluation results

Reporting results and making recommendations. Evaluation Studies Critique, Ethical Issues.

Reading:

- Weiss, Chapter 13

The following articles are examples of policy analyses using the tools presented in this course. These examples will be used for illustration as well as for practical exercises:

1. Gary T. Henry and Ross Rubenstein. 2002. "Paying for Grades: Impact of Merit-Based Financial Aid on Educational Quality." *Journal of Policy Analysis and Management* 21(1): 93-109.
2. David A. Wise. 1975. "Academic Achievement and Job Performance." *American Economic Review* 65(3): 350-366.
3. Robert W. Crandall and John D. Graham. 1989. "The Effect of Fuel Economy Standards on Automobile Safety." *Journal of Law and Economics* 32(1): 97-118.
4. Jane Waldfogel. 1998. "Understanding the 'Family Gap' in Pay for Women with Children." *Journal of Economic Perspectives* 12(1): 137-156.
5. Daniel S. Hamermesh and Amy M. Parker. 2005. "Beauty in the Classroom: Professors' Pulchritude and Putative Pedagogical Productivity." *Economics of Education Review*.
6. McKinley L. Blackburn and David Neumark. 1993. "Omitted-Ability Bias and the Increase in the Return to Schooling." *Journal of Labor Economics* 11(3): 521-544.
7. Robert W. Fairlie and Rebecca A. London. 1997. "The effect of incremental benefit levels on births to AFDC recipients." *Journal of Policy Analysis and Management* 16(4): 575-597.
8. James L. Mitchell. 2004. "Will empowering developers to challenge exclusionary zoning increase suburban housing choice?" *Journal of Policy Analysis and Management* 23(1): 119-134.
9. David C. Grabowski, Michael A. Morrissey. 2004. "Gasoline prices and motor vehicle fatalities." *Journal of Policy Analysis and Management* 23(3): 575-593.
10. Dennis Coates and Brad R. Humphreys. 1999. "The growth effects of sport franchises, stadia, and arenas." *Journal of Policy Analysis and Management* 18(4): 601-624.
11. Ted Gayer. 2004. "The Fatality Risks of Sport-Utility Vehicles, Vans, and Pickups Relative to Cars." *Journal of Risk and Uncertainty* 28(2): 103-133. [click on "PDF"]
12. Ian Ayres and Steven D. Levitt. 1998. "Measuring Positive Externalities from Unobservable Victim Precaution: An Empirical Analysis of Lojack." *Quarterly Journal of Economics* 113(1): 43-77.

13. Trevor L. Brown and Matthew Potoski. 2003. "Managing contract performance: A transaction costs approach." *Journal of Policy Analysis and Management* 22(2): 275-297.
14. Steven D. Levitt and Jack Porter. 2001. "Sample Selection in the Estimation of Air Bag and Seat Belt Effectiveness." *Review of Economics and Statistics* 83(4): 603-615.
15. Jens Ludwig, Greg J. Duncan, and Paul Hirschfield. 2001. "Urban Poverty and Juvenile Crime: Evidence from a Randomized Housing-Mobility Experiment." *Quarterly Journal of Economics* 116(2): 655-679.
16. Robert Bifulco, William Duncombe, and John Yinger. 2005. "Does whole-school reform boost student performance? The case of New York City." *Journal of Policy Analysis and Management* 24(1): 47-72.
17. Brian A. Jacob and Lars Lefgren. 2004. "Remedial Education and Student Achievement: A Regression-Discontinuity Analysis." *Review of Economics and Statistics* 86(1): 226-244.
18. Howard S. Bloom. 2003. "Using 'Short' Interrupted Time-Series Analysis To Measure The Impacts Of Whole-School Reforms: With Applications to a Study of Accelerated Schools." *Evaluation Review* 27(1): 3-49.
19. Rajeev H. Dehejia and Sadek Wahba. 1999. "Causal Effects in Nonexperimental Studies: Reevaluating the Evaluation of Training Programs." *Journal of the American Statistical Association* 94(448): 1053-1062.
20. Michael S. Lewis-Beck and John R. Alford. 1980. "Can Government Regulate Safety? The Coal Mine Example." *American Political Science Review* 74(3): 745-756.
21. Houston, David J. 1999. "Implications of the 65-mph Speed Limit for Traffic Safety." *Evaluation Review* 23(3):304-315.
22. Crew Jr., Robert E. and Scott Lamothe. 2003. "Evaluating the Effectiveness of Private Sector Organizations in Helping Welfare Beneficiaries Find Employment." *Evaluation Review* 27(2):151-164.

Some of the possible journals to check for case articles are:

Journal of Policy Analysis and Management

Evaluation Review

Evaluation and Program Planning