



Ph.D. in ECONOMICS – Universities of Milan and Pavia

Macroeconomics I: The Economics of the Welfare State

Academic year 2016-17 – Spring Term

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Office hours: Wednesday 10-13 (April and May 2017), or by appointment.

Course description

This course will present some workhorse models of modern macroeconomics and their applications to the Economics of the Welfare State. The focus will be on the macroeconomic effects of social security in the form of pensions in the Overlapping Generations (OLG) model; of social security in the form of unemployment benefits in the search and matching model and in the efficiency wage model; of various forms of social security spending in the neoclassical growth model with endogenous savings. The emphasis will be on the theoretical models and their policy implications.

Course organization: There are 8 lectures, each to be held at 10.30-13.00 in Via Pace, Room B.

Course Assessment: The assessment is based on a written examinations. Students will need to answer to two questions out of four. The examination will be held on May 18th at 10.30 (room to be announced).

COURSE OUTLINE

Topic 1. OLG models and Social Security. Lectures 1-3 (Thur. 6/4, Fri. 7/4 and Thur. 20/4//2017)

The Samuelson-Diamond two-period OLG model: positive and normative analysis. OLG models and social security: Fully Funded vs Pay-As-You-Go pensions. Retirement age and labour supply.

References

-Andersen, T.M. and Bhattacharya, J. (2015), “The intergenerational welfare state and the rise and fall of Pay-As-You-Go pensions”, *Economic Journal*, 1-11.

-Heijdra, B. (2009). *Foundations of Modern Macroeconomics* (2nd edition), ch. 17, pp. 617-632, Oxford University Press.

-Hindricks and Myles (2013, 2nd ed.). *Intermediate public economics*, chs 22-23, MIT Press.

-Weil, P. (2008). “Overlapping generations: The first jubilee”, *Journal of Economics Perspectives*, 22: 115-34.



Topic 2. Unemployment benefits. Lectures 4-6 (Fri 21/4, Thur. 27/4, Fri. 28/4/2017)

Search and matching models of the labour market. Efficiency wage models. The macroeconomic effects of unemployment benefits.

References

- Atkinson, A.B. (2013). “Ensuring social inclusion in changing labour and capital markets”, *Economic Papers* n. 481.
- Bertola, G. (2016). “European unemployment revisited: shocks, institutions, integration, CEPR, DP n.11606.
- Fredriksson, P., and B. Holmlund. “Incentives in unemployment insurance: A review of the recent literature.” *Journal of Economic Surveys* 20:3 (2006): 357–386.
- Heijdra, B. (2009), *Foundations of Modern Macroeconomics* (2nd edition), ch. 8, Oxford University Press.
- Shapiro, S. and Stiglitz, J.S. (1984) “Equilibrium unemployment as a worker discipline device”, *American Economic Review*, pp. 433-444

Topic 3. The Welfare State and economic growth. Lectures 7 and 8 (Thur 4/5, Fri 5/5/2017)

The Ramsey neoclassical growth model. Growth and government spending in the Ramsey model.

References

- Arjona, R., Ladaïque, M., and Pearson, M. (2002). “Social protection and growth”, *OECD Economic Studies*, 35: 7-45. http://dx.doi.org/10.1787/eco_studies-v2002-art8-en
- Agell, J., Lindh, T. and Ohlsson, H. (1997). “Growth and the public sector: A critical review essay”, *European Journal of Political Economy*, 13: 33-52.
- Atkinson, A.B. (1995). “Is the Welfare State necessarily an obstacle to economic growth?”, *European Economic Review*, 39: 723-730.
- Barro, R.J. (2013a). “Education and economic growth”. *Annals of Economics and Finance*, 14: 301–328.
- Barro, R.J. (2013b). “Health and economic growth”. *Annals of Economics and Finance*, 14: 329-366,
- Heijdra, B. (2009). *Foundations of Modern Macroeconomics* (2nd edition), ch. 13.5-13.8, Oxford University Press.