

ECONOMICS OF NONPROFIT ORGANIZATIONS

Weinberg College of Arts and Sciences
Department of Economics

Course ID: ECON 359
Winter 2019

Class: 12:30 – 1:50 Tuesdays & Thursdays
Evanston campus: Technological Institute L150

Dean Karlan

*Professor of Economics and Finance, Frederic Esser Nemmers Chair
Co-Director, Global Poverty Research Lab, Buffett Institute*

karlan@northwestern.edu

(847) 491-8706

KGH 4441

Office Hours in KGH 4441: Monday 2pm-3:30pm & Thursday 2:30pm-3:30pm

Shannon Coyne

Senior Program Administrator, Effective Philanthropy

shannon.coyne@kellogg.northwestern.edu

(847) 491-8883

KGH 4192

Office Hours in KGH 4156: Tuesday 2:00 – 4:30pm

Utsav Manjeer

Teaching Assistant

UtsavManjeer2015@u.northwestern.edu

Office Hours in KGH 3496: Wednesday 2:30 – 5:00pm

OVERVIEW

ECON 359: Economics of Nonprofit Organizations will explore the economic rationale for the non-profit sector in a mixed economy. Topics include the objectives and behavior of non-profit organizations, competition with commercial firms, volunteerism, and charitable donation.

This course will also take a hands-on approach to being an effective philanthropist. This experiential learning class will blend both the abstract (theories of giving; theories of change underlying nonprofit program design; analysis strategies to measure impact of nonprofit programs) and the applied (critiquing nonprofit claims of impact; estimating impact of specific nonprofit programs when there is high quality evidence and when there is not). For the experiential learning aspect of class, student groups work directly with nonprofit clients to conduct an “impact audit”, a new tool and standard for assessing nonprofit effectiveness developed by [ImpactMatters](#).

The class will meet regularly during the first half of the term, and then in the second half much time outside of class will be needed to engage with the nonprofit and conduct the impact audit. There will be three main deliverables: (1) Completion of a “Guided Impact Report”, which does not require engagement with a nonprofit organization, (2) an Impact Audit of a nonprofit program, which includes rating the organization’s Quality of Impact Evidence and estimating its Cost of Impact, and (3) a presentation of the Impact Audit (prior to submission of the final written deliverable) to the class and nonprofit clients.

COURSE LOGISTICS

Pre-requisites: Students must have completed ECON 281, ECON 310-1, and ECON 310-2 for enrollment in this course.

Required Books & Reports:

1. *The Most Good You Can Do*, by Peter Singer, Yale University Press, 2015.
2. *The Goldilocks Challenge* by Mary Kay Gugerty and Dean Karlan, Oxford University Press, 2018.
3. Each week will also have both required and optional articles or reports to read.

AccessibleNU: Any student requesting accommodations related to a disability or other condition is required to register with AccessibleNU (accessiblenu@northwestern.edu; 847-467-5530) and provide professors with an accommodation notification from AccessibleNU, preferably within the first two weeks of class. All information will remain confidential.

COURSE DELIVERABLES & GRADING

1. **Class Participation and Peer Review (20%)**: Students are required to attend each class and be fully engaged with their fellow students. Peer review is due on March 19.
2. **Guided Impact Report (20%)**: For a midterm assignment, students will individually produce a guided impact report on a nonprofit. This is an assessment of the nonprofit, but done with publicly available information rather than coordination or communication with the nonprofit. The assignment is due on February 13.
3. **Impact Audit Report (35%)**: Prior to the quarter, we have enlisted nonprofits that have agreed to participate as partners in this course. We will assign student groups to one of these charities based on preferences voiced by students. Student groups will produce an Impact Audit Report. The final report is due by 5:00pm CT on March 19.
4. **Client Presentation (25%)**: Student groups will present their report to the class and nonprofit client together. Presentations will occur during two class sessions the week of March 11.

CLIENT ENGAGEMENT

In teams of three to four, students will work with nonprofit clients to conduct impact audits. The nonprofit clients and projects of focus are identified in advance by Professor Karlan and Shannon Coyne. Students will present their findings to the nonprofit and deliver an impact audit report. After the course, nonprofits can work with ImpactMatters to have their audits certified and posted online by the nonprofit and ImpactMatters. The nonprofit also decides whether to publish audit findings.

Student Expectations: Students will rank their preferences for the nonprofit projects in Week 2 of the course. Students can rank their preferences individually or coordinate to rank preferences together as a group. Students will be placed into groups based on their stated project preferences. Every effort will be made to match student groups with one of their top project choices.

This course is a significant time commitment. Student groups should expect to dedicate about 45-60 hours to the student impact audit projects, mostly in the second half of the quarter. Students are highly encouraged to consider their other winter quarter engagements before enrolling in this course.

Please understand that student failure to fulfill the responsibilities of this course may jeopardize relationships between the nonprofit clients and Northwestern University. Enrollment in the course signifies student commitment to act in a professional manner at all times when interacting with the nonprofit client, in order to serve as a positive brand ambassador for both the university and your fellow students.

All students must commit to attending the final presentations to the nonprofit clients. These presentations are scheduled for the final two class sessions: 3:30 – 5:00pm on March 11 and 14. Enrollment in the course signifies a student’s commitment to attending these presentations. No absences will be allowed.

COURSE FORMAT

The class will meet regularly, initially for lectures and then for group discussions later in the quarter as the projects get underway.

Weeks 1-5 will be lecture and discussion style classes in which we cover why people give, theories of change for nonprofits, and evaluation strategies. After the first five weeks, it will be expected that students are familiar with (a) how to evaluate a “theory of change”, (b) how to take a non-technical description of what a charity does and frame it as a “theory of change,” and (c) what constitutes evidence of impact. After week 5, it also will be expected that students are familiar with the Impact Audit Standard and Handbook, and how it can be used to assess the impact of a nonprofit.

In weeks 6-10 student groups will dedicate significant time outside of class to conduct the impact audits. Class time will be dedicated to group meetings, class discussion on key challenges groups are facing, and group presentations.

Effective Philanthropy Course Timeline (Overview)				
Week	Date	Lecture Details	Impact Audit Tasks*	Impact Audit Deliverables*
Week 1	1/8	Why we give		
	1/10	Theories of change		
Week 2	1/15	Theories of change (continued)	<ul style="list-style-type: none"> - Complete Qualtrics poll on project preferences by 1/14 - Students notified of project assignment by 1/16 - Introduced to clients by 1/18 	
	1/17	Evaluating evidence		
Week 3	1/22	Evaluating evidence (continued)	<ul style="list-style-type: none"> - Students start to outline theory of change and outcome for audit - Hold introductory call with client by 1/25 	
	1/24	Examples of what works		
Week 4	1/29	Examples of what works (continued)		Groups present theory of change and outcome to class for feedback (Ungraded)
	1/31	Theories of change (revisited)		
Week 5	2/5 & 2/7	Impact audit methodology	Audits begin: By 2/8, <ul style="list-style-type: none"> - Agree on outcome with client - Create & share audit questionnaire w/ client 	
Week 6	2/12 & 2/14	Class discussion of specific audits and group work	By 2/15: <ul style="list-style-type: none"> - Info-gathering & questionnaire complete - Start developing cost-effectiveness estimation model 	Guided Impact Report (GIR) due 2/13 (Graded)
Week 7	2/19 & 2/21	Class discussion of specific audits and group work		Impact and cost model proposal due 2/20 (Ungraded)
Week 8	2/26 & 2/28	Class discussion of specific audits and group work	<ul style="list-style-type: none"> - Update client on impact and cost model (once approved) - Start writing audit report 	
Week 9	3/5 & 3/7	Students use class time (and time outside of class) for projects		Draft impact audit report due 3/6 (Ungraded) Once reviewed, share with client
Week 10	3/12 & 3/14	In-class final presentations to nonprofit clients		In-class presentations to nonprofit clients (Graded)
Week 11 (Finals)	3/18 – 3/23			Final impact audit report due on 3/19 (Graded) Peer review due 3/19 (Graded)

***See pages 10-11 for details on the student impact audit project tasks and deliverables**

LECTURE SCHEDULE

Lecture 1 (1/8): Why we give

We will discuss key debates, what we know about whether aid works (and how to ask that question). We also will discuss the economic, psychological and philosophical drivers that lead us to act.

Required Readings:

- Singer, Peter. *The Most Good You Can Do*. Chapters 1-2, pgs 3-20.
- Two related op-ed's:
 - Easterly, William. "[The Handouts that Feed Poverty](#)." *Los Angeles Times*, Op-ed, April 30th 2006.
 - Sachs, Jeffrey D. "[Foreign Aid Skeptics Thrive on Pessimism](#)." *Los Angeles Times*, Op-ed, May 7th 2006.
- Singer, Peter. "[The Drowning Child and the Expanding Circle](#)." April 1997.
- Sullivan, Paul. "[Two Paths for Charitable Giving: From the Head or From the Heart](#)." *New York Times*, June 28th 2013.

Recommended Readings:

- Nice overview piece: List, John. "[The Market for Charitable Giving](#)." *Journal of Economic Perspectives*, Spring 2011.
- List, John A. and Michael K. Price. "[Charitable Giving Around the World: Thoughts on How to Expand the Pie](#)." *CEsifo Economic Studies*, Vol. 58, 2012.
- Karlan, Dean and Daniel H. Wood. "[The effect of effectiveness: Donor response to aid effectiveness in a direct mail fundraising experiment](#)." *Journal of Behavioral and Experimental Economics*, Vol. 66, 2017.
- Karlan, Dean and John List. "[How Can Bill and Melinda Gates Increase Other People's Donations to Fund Public Goods?](#)" 2018.
- Karlan, Dean. "[Here's how to determine if that charity is worth your dollars](#)." Op-ed, *Los Angeles Times*, December 17, 2014.

Lecture 2 (1/10) & Lecture 3 (1/15): Theories of change: market failures

We will lay the groundwork for how to conceptualize what a given NGO aims to do, i.e., what problem they aim to address and how they aim to do so.

Required Readings:

- Singer, Peter. *The Most Good You Can Do*. Chapters 10-12 and 14, pgs 107-136 and 149-164.
- *The Goldilocks Challenge*, Chapters 1-3
- Case Study: The Goldilocks Challenge, Chapter 8, "Educate! Developing a Theory of Change for 'Changemakers'"
- Karlan, Dean and Jacob Appel. "[You Can't Always Get What You Want](#)." *Foreign Policy*, May 31, 2011.

- Blattman, Christopher and Paul Niehaus. "[Show Them the Money.](#)" *Foreign Affairs*, May/June 2014.

Recommended Readings:

- Anagol, Santosh, Alvin Etang and Dean Karlan [Continued Existence of Cows Disproves Central Tenets of Capitalism?](#). *Economic Development and Cultural Change*, vol 65(4), 2017.

Lecture 4 (1/17) & Lecture 5 (1/22): Evaluating evidence

We will discuss practical concerns regarding the onus of data collection for NGOs, and discuss a roadmap for thinking through how to strike the right balance.

Required Readings:

- *The Goldilocks Challenge*, Chapters 4-7
- Case Study: The Goldilocks Challenge, Chapter 10, "Salama SHIELD Foundation: The Challenge of Actionability," pg 181-198.
- Case Study: The Goldilocks Challenge, Chapter 13, "Un Kilo de Ayuda: Finding the Right Fit in Monitoring and Evaluation" pg 227-241.

Lecture 6 (1/24): Examples of what works: programs to increase income

We will explore programs that aim to increase income for the poorest of the poor. Examples include microcredit programs and the graduation model.

Required Readings:

- Abdul Latif Jameel Poverty Action Lab (J-PAL) and Innovations for Poverty Action (IPA). "[Where Credit is Due.](#)" February 2015.
- Abdul Latif Jameel Poverty Action Lab (J-PAL) and Innovations for Poverty Action (IPA). "[Building Stable Livelihoods for the Ultra-Poor.](#)" September 2015.
- Banerjee, Abhijit, Esther Duflo, Nathanael Goldberg, Dean Karlan, Robert Osei, William Pariente, Jeremy Shapiro, Bram Thuysbaert, and Christopher Udry. "[A multifaceted program causes lasting progress for the very poor: Evidence from six countries.](#)" *Science Magazine*, Vol. 348, Issue 6236, 2015.

Lecture 7 (1/29): Examples of what works: cognitive behavioral therapy

We will explore programs that aim to reduce crime and violence, internationally and domestically.

Required Readings:

- Heller, Sara, Anuj K. Shah, Jonathan Guryan, Jens Ludwig, Sendhil Mullainathan, and Harold A. Pollack. "[Thinking, Fast and Slow? Some Field Experiments to Reduce Crime and Dropout in Chicago.](#)" *The Quarterly Journal of Economics*, Vol. 132, Issue 1, 2017.

- Blattman, Christopher, Julian C. Jamison, and Margaret Sheridan. "[Reducing Crime and Violence: Experimental Evidence from Cognitive Behavioral Therapy in Liberia.](#)" *American Economic Review*, 107(4), 2017.

Lecture 8 (1/31): Returning to Theories of change & market failures

We will revisit theories of change and program outcomes and apply these lessons to the specific NGOs assigned to each group.

Impact Audit Assignment: Each student group will have 10 minutes to present the theory of change for their client's program and their recommendation for the outcome of interest for the audit.

Lecture 9 (2/5) and Lecture 10 (2/7): The Impact Audit methodology

This week we will explore the impact audit methodology by walking through several examples: a "gold standard" example of a nonprofit with their own RCT, a medium standard example of a nonprofit relying on rigorous research on similar interventions, and a weaker example of a nonprofit lacking any impact evaluation.

Required Readings:

- Standard for Impact Auditing, by ImpactMatters, 2018.
- Sample audit with RCT of the program: [Living Goods Impact Audit](#), by ImpactMatters, 2018.
- Sample audit with rigorous research on similar interventions: [D-REV Impact Audit](#), by ImpactMatters, 2017.
- Sample audit with no relevant RCT: [Opportunity Junction Career Counseling and Placement Assistance Impact Audit](#), by ImpactMatters, 2018.

Recommended Readings:

- Martina Bjorkman Nyqvist, Andrea Guariso, Jakob Svensson, and David Yanagizawa-Drott. "[Reducing Child Mortality in the Last Mile: A Randomized Social Entrepreneurship Intervention in Uganda.](#)" (RCT that was used in above Living Goods impact audit).
- Newman, Thomas B., Michael W. Kunziewicz, Petra Liljestrand, Soora Wi, Charles McCulloch, and Gabriel J. Escobar. "[Numbers Needed to Treat with Phototherapy According to American Academy of Pediatrics Guidelines.](#)" *Pediatrics*, 123(5), 2009. (Clinical research used in above D-REV impact audit)

Week 6 (2/12, 2/14): Audits continue

This week, class time will be used for class discussion of specific audits and group work.

Midterm: Guided Impact Report (GIR) due 2/13. Additional details to follow. (Graded)

Week 7 (2/19, 2/21): Audits continue

This week, class time will be used for class discussion of specific audits and group work.

Week 8 (2/26, 2/28): Audits continue

This week, class time will be used for class discussion of specific audits and group work.

Week 9 (3/5, 3/7): Audits continue

This week, students will use class time (and additional time outside of class) to work on the impact audit projects.

Week 10 (3/12, 3/14): Final presentations

This week, clients will be invited to attend or call in to class for final presentations.

Impact Audit Assignment: Each student group will get 15-20 minutes to present impact audit findings and recommendations to the class and their client. (Graded)

Week 11: Finals

Deliverable due by 5:00pm CT on March 19: final impact audit report submitted to client and Professor Karlan. Students must also submit a peer review.

STUDENT IMPACT AUDIT PROJECTS

Timeline of tasks and deliverables

Week 2 – Groups formed and projects assigned

By 11:59pm CT on 1/14, complete Qualtrics poll (link to be provided) on project preferences. Students will be notified of client assignments by COB on 1/16. Every effort will be made to match student groups with one of their top preferences.

Students are introduced to their clients by 1/18. Students should pick a point of contact to communicate with the nonprofit client. Student POC is expected to follow up with client to share timeline and next steps.

Week 3 – Outcomes exercise

Using Chapter 3 of *The Goldilocks Challenge* as a guide, start to map out the theory of change and outcome of interest for the nonprofit program to be audited.

By 1/25, students should have an introductory call with the client.

Week 4 – In-class presentations on program theory of change and outcomes

On 1/31, each student group will have 10 minutes to present the theory of change for their client's program and their recommendation for the outcome of interest for the audit. After getting feedback from the class, each student group will circle back with their nonprofit client to present their recommendation and agree upon outcome of interest with the client. (Ungraded)

Week 5 – Audits begin

By 2/8, each student group should:

1. Present their recommendation and come to an agreement with the client on the outcome of interest for the audit.
2. Prepare and share the audit questionnaire with nonprofit client, to collect the required program data.

Week 6 – Audits continue

By 2/15, each student group should:

1. Finish information gathering and questionnaire
2. Start developing cost-effectiveness estimation model

Midterm: Guided Impact Report (GIR) due 2/13. Additional details to follow. (Graded)

Week 7 – Audits continue

Deliverable due 2/20: Each student group must submit in writing a proposal for how to estimate impact and costs. (Ungraded)

Week 8 – Audits continue

By 2/25, each student group will get feedback from Professor Karlan in writing on the proposal. With feedback, update client on impact and cost model and start writing the impact audit report.

Week 9 – Audits continue

Deliverable due 3/6: Each student group must submit their draft impact audit report for review. Professor Karlan must review and sign off on the draft report before it is shared with the nonprofit client. (Ungraded)

Every effort will be made to get students feedback by EOD 3/8. Once reviewed, share draft impact audit report with nonprofit client (ahead of final presentations).

Week 10 – In-class final presentations

Final presentations: Each student group will get 15-20 minutes to present impact audit findings and recommendations to the class and their client. (Graded)

Week 11 – Finals

Students will incorporate feedback from client and Professor Karlan into the final impact audit report.

Deliverable due by 5:00pm CT on March 19: final impact audit report submitted to client and Professor Karlan. Students must also submit a peer review.