ECONOMICS OF NONPROFIT ORGANIZATIONS

Weinberg College of Arts and Sciences
Department of Economics

Course ID: ECON 359
Winter 2020

Class: 3:30 – 4:50pm Mondays & Wednesdays
Evanston campus: Technological Institute L361

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OVERVIEW

ECON 359: Economics of Nonprofit Organizations will explore the economic rationale for the non-profit sector, with a particular focus on how to model theoretically the value added of a nonprofit organization and how to estimate empirically its likely impact.

There are two experiential learning aspects of class. First, student groups will work directly with nonprofit clients to conduct an “impact audit”, a tool and standard for assessing nonprofit effectiveness developed by ImpactMatters. Second, with generous support from The Philanthropy Lab, students will have $50,000 to donate to the nonprofit or nonprofits of their choice. Students will discuss and decide on the criteria and decision-making process. At the end of the quarter, students will decide on the grant or grants to make.

This course is relevant for students who want to apply analytical thinking to philanthropy, whether for personal growth, public sector career aspirations or personal philanthropic aspirations.

There will be three main, graded deliverables: (1) Guided Impact Report: an independent assignment completed individually and without direct interaction with the nonprofit organization, (2) Impact Audit Report: a group assignment that requires interacting directly with a partner nonprofit organization to estimate their cost effectiveness and quality of impact evidence, and (3) Impact Audit Presentation: presentation of the Impact Audit Report to the class and nonprofit client.

COURSE LOGISTICS

Pre-requisites: In addition to completing the pre-requisites (ECON 281, ECON 310-1, ECON 310-2; or equivalent with permission of the instructor), students must complete a brief application linked here: https://northwestern.az1.qualtrics.com/jfe/form/SV_3rNxFnSnUxxaJ.

Books & Articles:
Each week will have both required and suggested reading, either chapters from the below, or articles or reports.


All students are required to purchase the course pack for ECON 359 from the economics department. Additional details will be provided to students in January.

In addition, the following book is recommended but not required for the course: The Ethics of Giving: Philosophers’ Perspectives on Philanthropy, Edited by Paul Woodruff, Oxford University Press, 2018.
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.

Electronics in class: Research has shown that electronics in class (cellphones obviously, but yes even computers) detract from learning and engagement. No computers will be allowed to be out, and cellphones must be in pockets or bags. Exceptions granted for assistive technologies with appropriate accommodation notification (see above re AccessibleNU).

Seating arrangement: Please maintain the same seat throughout the quarter.

COURSE DELIVERABLES & GRADING

1. Class Participation (10%): Attendance will be taken for each class. The majority of class participation will be based on attendance. Students can miss or be late for up to two classes without penalty or explanation. Exceptions beyond two will be granted for health, religious or emergency reasons, and requests should be emailed to me. Being prepared for class and engaging in discussion is also considered part of “class participation”. There are two types of readings each week, required and suggested. Required readings and short assignments are subject to cold-calling. Suggested readings will be referenced, but will not be subject to cold-calling. I realize that there are many demands on student’s time. If you are unable to be prepared for class, then email me before the class and I will not call on you (no need to explain why). As long as there is no sign of abusing this privilege, you will be neither cold-called nor penalized.

2. Guided Impact Report (20%): For a midterm assignment, students will individually produce a guided impact report (“GIR”) on a nonprofit. This is an assessment of the nonprofit, but done with publicly available information rather than coordination or communication with the nonprofit. These GIRs will also form the basis for the class discussion on February 12 in which the class will decide the “default” charity against which nonprofit client charities must outperform in order to be considered for the grant. The assignment is due on February 10.

3. Short Assignments (25%): Several weeks (see syllabus for specifics) will have short written assignments due by noon the day before class, submitted via canvas. Grading is binary: completed with visible effort or not.

4. Impact Audit (45%): We have enlisted nonprofits to participate as partners in this course. We will assign student groups to one of these charities based student
preferences. Student groups will produce an Impact Audit Report. The Impact Audit grade has three components:

i. Written report: Due by 5:00pm CT on March 16. (30 of the 45%)

ii. Presentation: Student groups will present their report to the nonprofit outside of class and present a summary during class the week of March 2. (10 of the 45%)

iii. Peer review: Due on March 16. Qualtrics survey will be sent at the end of the quarter. (5 of the 45%)

NONPROFIT 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 have been identified in advance by Professor Karlan and Shannon Coyne. At the end of the quarter, students will present their findings to the nonprofit and deliver an impact audit report.

Students will rank their preferences for the nonprofit projects in Week 2 of the course. 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. If students want to work in a group together, we encourage you to submit identical preference rankings.

Please understand that student failure to fulfill the responsibilities of this course may jeopardize relationships between the nonprofit clients and Northwestern. 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 Northwestern and the students.

All students must commit to attending (virtually or in-person) the final presentations to their nonprofit clients, which will be scheduled outside of class the week of March 2.

THE PHILANTHROPY LAB

Northwestern University is partnering with The Philanthropy Lab to support this experiential learning course on philanthropy. With generous support from The Philanthropy Lab, students will have $50,000 to donate to the nonprofit or nonprofits of their choice. In addition to this class grant, additional resources may be granted if students participate in optional activities including a goal-setting exercise with The Philanthropy Lab and an evaluation exercise to follow-up on the class grants.

Note that this funding component is complementary to but distinct from the student impact audit projects. We therefore ask that you do NOT share details of this grant opportunity with the nonprofit partners, in order to avoid generating any expectations for funding.
Two students from the class will also have the opportunity to represent the class (and make the case for additional funding for one of the class’ grantees) in awarding an additional $150,000 with student representatives from other universities at the Ambassadors Conference hosted by The Philanthropy Lab from June 18-21, 2020 in Dallas, TX. Additional information on The Philanthropy Lab Grant and Ambassadors Conference will be provided in week 1 of class.

**COURSE FORMAT**

<table>
<thead>
<tr>
<th>Week 1</th>
<th>1/6</th>
<th>Introduction Why and how we give</th>
<th>Impact Audit Tasks &amp; Deliverables</th>
<th>Other Deliverables</th>
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<tr>
<td></td>
<td>1/8</td>
<td>Why should nonprofits exist</td>
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| Week 2 | 1/13 | Estimating nonprofit impact       | Complete Qualtrics poll on project preferences by 1/13 Students notified of project assignment by 1/15 and introduced to partner nonprofits. |                    |
|        | 1/15 | Large philanthropy                |                                   |                    |

| Week 3 | 1/20: No class | Choosing primary outcomes & counterfactual alternatives | Impact Investing | Other Deliverables |
|        | 1/22 |                                      |                  |                    |

| Week 4 | 1/27 | Foundations perspective (guest speakers from foundations) | IAP First Deliverable Due: Theory of Change (TOC), Primary Outcome, and Literature Review Summary (~2 pages) |                    |
|        | 1/29 | Choosing primary outcomes & counterfactual alternatives (continued) | Each student group schedules with their nonprofit client their final presentation. Aim for week of March 2nd. Coordinate on google doc, linked on Canvas. |                    |

| Week 5 | 2/3 | Using data, perspectives from an implementer (Guest speaker Karen Levy, from Evidence Action) | By 2/3, present TOC to nonprofit and agree on outcome with client. Create and share questionnaire with client to collect additional information |                    |
|        | 2/5 | Impact Investing                    |                                   |                    |
| Week 6 | 2/10 | Sample Audits | • Info-gathering & questionnaire complete  
• Start developing cost-effectiveness estimation model | Midterm: Guided Impact Report (GIR) due 2/10 (Graded) |
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<tbody>
<tr>
<td></td>
<td>2/12</td>
<td>Philanthropy Lab Grant Criteria Discussion</td>
<td>Student groups review GIRs and prepare for in-class presentations</td>
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<tr>
<td>Week 7</td>
<td>2/17</td>
<td>Class discussion of specific audits and group work</td>
<td>Impact and cost model proposal due by 2/17 (ungraded)</td>
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<td>2/19</td>
<td>Group check-in meetings with professor &amp; TA</td>
<td>Student groups will meet with professor (in class) to discuss feedback on proposal</td>
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<td>Week 8</td>
<td>2/24</td>
<td>Class discussion of specific audits and group work</td>
<td>Draft impact audit report submitted for review by 2/24; once reviewed and any necessary edits made, submit to client for feedback (ahead of presentations)</td>
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<tr>
<td></td>
<td>2/26</td>
<td>Impact Investing (Guest speaker Greg Fischer, from YAnalytics)</td>
<td>Student groups will meet with professor (outside of class) to discuss feedback on draft audit report</td>
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- **Short Assignment #8**

| Week 9 | 3/2 | Presentations | Student groups present to nonprofit clients outside of class any day this week (Graded) |
|        | 3/4 | Presentations (continued) | Student groups present audit findings and funding recommendation in class (Ungraded) |

- **PL volunteer signup deadline for (1) evaluation lead; (2) Ambassador’s Conference**

| Week 10 | 3/9 | $50,000 funding discussion and decision! Class reflection and closing | Submit Giving Goals to Philanthropy Lab (optional) |

- **Final impact audit report due on 3/16 (Graded)**

- **Peer review due 3/16 (Graded)**

| Week 11 (Finals) | 3/16 – 3/21 | |

Karlan ECON 359 Winter 2020
CLASS & PROJECT SCHEDULE

Class #1 (1/6): Introduction; Why and how we give
We will discuss goals of the class and project expectations. Why people give (or not), how people choose charities, and the role of economics in thinking about the nonprofit sector.

Readings:
- Required: Syllabus
- Required: Philanthropy Lab (PL) documents:
  - 2019-20 Student Welcome Letter
  - 2019-20 Northwestern Grant Letter
  - 2019-20 Evaluation Letter and Attachments
  - 2019-20 PL Flyers

Required Task: After reading the Philanthropy Lab documents, all students must initial in the appropriate spaces on the grant letter (pages 4-8) and on the evaluation letter (page 3) to acknowledge understanding of student responsibilities. The Philanthropy Lab grant is contingent on students promptly signing and returning these documents. Sign and upload the documentation to Canvas in a single file titled “LAST NAME_PL docs signed” by January 9.

Also complete the Philanthropy Lab pre-course survey. Link posted on Canvas.

Class #2 (1/8): Why should nonprofits exist
We will discuss a typology of nonprofits, and some history of the biggest philanthropists. What determines nonprofit success, market failures in the nonprofit sector, and theory of change. The class will decide on funding rules for the $50,000 grant (ex: all to one? criteria? voting process).

Readings:
- Required: HBS Background Note: Responding to Market Failures (Course Pack)

Short Assignment #1: What criteria should the class use for deciding which charity to support? Should the class choose one charity or more than one? And what decision rule should the class use if more than one? Maximum 1 page, minimum three sentences (one for each question). Reminder that all short assignments should be submitted via canvas and are due by noon the day before class.
Class #3 (1/13): Estimating nonprofit impact
We will define key terms (impact, outputs, outcomes) and how these fit together in a theory of change. We will explore how to assess nonprofit impact claims and discuss how to estimate impact.

Readings:

Short Assignment #2: Review website and publicly available information on a nonprofit of your choice. Identify metrics they use under an "Impact" page or other similar page on their website. Do you find the metrics they put forward credible? Do they reasonably capture the impact of the nonprofit? If not, why not?

Impact Audit Project: By 11:59pm CT on 1/13, complete Qualtrics poll (link posted on canvas) on project preferences. Students will be notified of client assignments and introduced to their clients by the end of day 1/15. Every effort will be made to match student groups with one of their top preferences.
- Pick a point of contact (POC) to communicate with the nonprofit client.
- POC follows up with client to share timeline (as outlined here) and next steps.
- Start work on the first impact audit deliverable, due in week 4.

Class #4 (1/15): Large philanthropy
We will discuss some history of philanthropy, critics and fans. And then three frameworks for impact-oriented grantmaking: Acumen Fund, Robin Hood Foundation, and the Millennium Challenge Corporation (MCC).

Readings:
- Suggested: Matthews, Dylan. “*The Trump Foundation was a sham. We have no idea how many other foundations are, too.*” Vox, Nov 8, 2019.
- Suggested: 60 minutes video clip. “Greg Mortenson.” CBS News, Apr 17, 2011. Link: [https://www.youtube.com/watch?v=XhAb37yZ0o0](https://www.youtube.com/watch?v=XhAb37yZ0o0)
Short Assignment #3: Which of these three approaches would you adopt if you were running a large foundation? Does your answer differ for “retail” philanthropy?

Class #5 (1/22): Choosing primary outcomes & counterfactual alternatives

*Note: There is no class on Monday 1/20 for the Martin Luther King Day Holiday.*

We will dig in with three examples. For each, we will review an academic paper at the root of the methodology as well as the methodology itself.

**Readings**

- Required: Graduation Programs (example 1)
- Required: Scholarship Programs (example 2)
  - Postsecondary Scholarships Methodology, by ImpactMatters, 2019.
- Required: Cataract Surgery Programs (example 3)

**Impact Audit Project:**

- Outside of class, students should continue working on the first impact audit project deliverable.
- By 1/24, students should have an introductory call with the client. Discuss the outcome of focus for the audit project on the call.

Class #6 (1/27): Foundations perspective

We will discuss philanthropy from the foundation perspective. Guest speakers: Michael Weinstein, former Chief Program Officer, Robin Hood Foundation and President of ImpactMatters; Julie Hoffman, former CEO of New Coast Foundation; and Doug Scott, President of A Better Chicago.

**Readings:**

Short Assignment #4: What is a question or two that you would like to ask the guest speakers tomorrow?

Impact Audit Project: IAP First Deliverable Due on 1/27: Theory of Change, Primary Outcome, and Literature Review Summary (all in ~2 pages).

Class #7 (1/29): Choosing primary outcomes & counterfactual alternatives (continued)

Readings: (continued from Class #5)
- Required: Gugerty and Karlan, The Goldilocks Challenge, Chapter 6
- Required: Graduation Programs (example 1)
- Required: Scholarship Programs (example 2)
  - Postsecondary Scholarships Methodology, by ImpactMatters, 2019.
- Required: Cataract Surgery Programs (example 3)

Short Assignment #5: Did any message from one of the speakers particularly resonate with you? If so, which one, and why? Did you strongly disagree with any message? If so, which one, and why?

Impact Audit Project: By 1/31, each student group should have the final presentation scheduled for a 60 minute block of time the week of March 2. Student groups must find a time that works for their nonprofit client and Professor Karlan and Shannon Coyne.

Class #8 (2/3): Using data, perspectives from an implementer
Guest speaker: Karen Levy, Evidence Action

Readings:
Suggested: Gugerty and Karlan, *The Goldilocks Challenge*, Chapter 4

**Impact Audit Project:** By 2/3, student groups should:
- Present TOC to nonprofit and agree on outcome with client.
- Create and share questionnaire with client to collect additional info

**Short Assignment #6:** What is a question or two that you would like to ask the guest speaker tomorrow?

**Class #9 (2/5): Impact Investing**
How does the theoretical framework and analysis discussed throughout this course change if we are assessing a for-profit firm that is making claims of positive social impact? Or if we are assessing an investor that is making claims of “impact investing”?

**Readings:**

**Short Assignment #7:** Find online any impact investing fund. What do they report about what constitutes ‘impact’ to them, and do they put forward any metrics? What do you think of the metrics they put forward? Your answer should be at most one page.

**Class #10 (2/10): Sample Audits**
We will discuss impact audit standards and review example audits, with a focus on audits both with and without strong counterfactual data from data internal to the nonprofit.

**Required Readings:**

**Impact Audit Project:** By 2/10, student groups should:
- Complete info-gathering & questionnaire
- Start developing cost-effectiveness estimation model

**Midterm:** Guided Impact Report (GIR) due **2/10.** Additional details to follow. (Graded)
Class #11 (2/12): Philanthropy Lab Grant Criteria Discussion
Before class, student groups will review each other’s GIRs, communicate or meet before class to choose their strongest nonprofit contender, and select one person to present this charity to the class. If a group cannot agree on one, that is ok, you can present more than one and explain why you could not agree as part of your presentation.

Class will discuss and decide on a “default charity” to receive The Philanthropy Lab Grant if no Impact Audit charity beats the “default charity.”

Readings:
- Required: Singer, Peter. The Most Good You Can Do. Ch 14, Choosing the Best Organizations (pgs 107-136).

Class #12 (2/17) and #13 (2/19): Class discussion and group check-in meetings

Impact Audit Project:
- Deliverable due 2/17: Each student group must submit in writing a proposal for how to estimate impact and costs. (Ungraded)
- 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.

Class #14 (2/24): Class discussion and group check-in meetings

Impact Audit Project:
- Deliverable due 2/24: Each student group must submit their draft impact audit report for review. (Ungraded)
- Professor Karlan must review and sign off on the draft report before it is shared with the nonprofit client for feedback ahead of final presentation.

Class #15 (2/26): Impact Investing (continued)
Guest Speaker: Greg Fischer, Chief Economist at YAnalytics
Philanthropy Lab Guests

Readings:
Short Assignment #8: What is a question or two that you would like to ask the guest speaker tomorrow?

Class #16 (3/2): In-class presentations
Student groups will make TEN MINUTE presentations of their audit findings and funding recommendation to class. In order to keep the process streamlined, each group will choose one person from the group to present. Note these presentations are not graded. Their main purpose is for everyone to learn about all of the nonprofits in order to then have a good discussion in the next class to make the $50,000 funding decisions.

Impact Audit Project:
- Final presentations: Each student group will present impact audit findings and recommendations to their client outside of class during the week of March 2. (Graded)

Class #17 (3/4): In-class presentations (continued)
Student groups will make TEN MINUTE presentations of their audit findings and funding recommendation to class. In order to keep the process streamlined, each group will choose one person from the group to present. Note these presentations are not graded. Their main purpose is for everyone to learn about all of the nonprofits in order to then have a good discussion in the next class to make the $50,000 funding decisions.

Impact Audit Project:
- Final presentations (continued): Each student group will present impact audit findings and recommendations to their client outside of class during the week of March 2. (Graded)

Philanthropy Lab (PL) Reminders: Review the Evaluation Letter. Share your personal email address so we can keep in touch (form to be circulated). Send Shannon Coyne an email by March 5 if you are interested in either of two volunteer opportunities: (1) Representing the class at the Ambassador’s Conference; and (2) Serving as a class evaluation leader. Additional information on both opportunities is posted on Canvas. Also complete the Philanthropy Lab post-course survey (linked on Canvas).

Class #18 (3/9): Funding decision and reflection
Funding decision day! Students will (a) decide how to allocate the grant, (b) discuss and form a plan for how the grant will be evaluated, and (c) discuss future giving goals.

Philanthropy Lab Reminder: After the class reflection and discussion, post your giving goal (anonymously or not) on The Philanthropy Lab’s website. Additional instructions will be provided. If more than 50% of students participate in posting their giving goals, the class will be awarded additional course funding for each student who participates.
Impact Audit Project:

- Students will incorporate feedback from client and Professor Karlan into the final impact audit report.
- **Deliverable due by 5:00pm CT on March 16:** final impact audit report submitted to client and Professor Karlan. Students must also submit a peer review. (Graded)