

ECONOMICS OF NONPROFIT ORGANIZATIONS

aka “Economics of Effective Philanthropy”

Weinberg College of Arts and Sciences
Department of Economics

ECON 359
Winter 2022

Class: 9:30am – 10:50am Mondays & Wednesdays

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OVERVIEW

ECON 359: Economics of Nonprofit Organizations (aka Economics of Effective Philanthropy) 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 organizations to conduct an “impact audit”, a tool and standard for assessing nonprofit effectiveness developed by [ImpactMatters](#) (now a part of the larger nonprofit ratings organization Charity Navigator). Second, with support from an anonymous donor, students will have \$10,000 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 four main, graded deliverables: (1) Problem Sets: assigned to be completed independently throughout the quarter, (2) Guided Impact Report: an independent assignment completed individually and without direct interaction with the nonprofit organization, (3) Impact Audit Report: a group assignment that involves reviewing nonprofit data and external research to estimate their cost effectiveness and quality of impact evidence, and (4) Impact Audit Presentation: presentation of the Impact Audit Report to the class and nonprofit client or professor.

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_82DVU7I9tbUupzD.

Books & Articles:

Each week will have both required and suggested reading. All articles have hyperlinks from the syllabus. Two articles ([HBS Background Note: Responding to Market Failures](#) and [Background Note: Managing and Measuring Impact](#)) require paying \$9 per article. If purchasing these articles is an issue, please reach out to us or Christy Anderson in the economics department for a solution.

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.

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: Students are expected to remove all electronic and physical distractions and be fully present physically and mentally during class time. Please put your cell phone away. Exceptions granted for assistive technologies with appropriate accommodation notification (see above re AccessibleNU).

Recording by Students: Unauthorized student recording of classroom or other academic activities (including advising sessions or office hours) is prohibited. Unauthorized recording is unethical and may also be a violation of University policy and state law. Students requesting the use of assistive technology as an accommodation should contact [AccessibleNU](#). Unauthorized use of classroom recordings – including distributing or posting them – is also prohibited. Under the University’s Copyright Policy, faculty own the copyright to instructional materials – including those resources created specifically for the purposes of instruction, such as syllabi, lectures and lecture notes, and presentations. Students cannot copy, reproduce, display or distribute these materials. Students who engage in unauthorized recording, unauthorized use of a recording or unauthorized distribution of instructional materials will be referred to the appropriate University office for follow-up.

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%): 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. See prompt on Canvas for details on this assignment. These GIRs (and the first problem set) will form the basis for the class discussion on February 10 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 8.
3. Problem Sets (20%): Several weeks (see syllabus for specifics) will have problem sets to be completed individually and submitted via canvas.
4. Short Assignments (15%): 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.
5. Impact Audit (35%): There are two options for the impact audit project. Both will be group projects requiring the same expected amount of effort, comparable final

deliverables, and an equal proportion of your final grade. For both options, the Impact Audit grade has three components:

- i. Written report: Due by 5:00pm CT on March 15. (20 of the 35%)
- ii. Presentation: Student groups will present their report to the instructor and nonprofit (if applicable) outside of class and present a summary during class the week of March 1. (10 of the 35%)
- iii. Peer review: Due on March 15. Qualtrics survey will be sent at the end of the quarter. (5 of the 35%)

IMPACT AUDIT PROJECTS (“IAPs”)

Impact Audit Projects are “experiential” projects that involve a deep dive with a nonprofit to put together your best estimate of their impact. Outputs include a report and a presentation to the nonprofit. Your group will answer, as best as you can, the question: "What is the impact of this nonprofit's program?" The final report can be thought of as a "report to a potential donor who asks for your advice about a particular charity." Note that for many the group will be assessing a “program” not an entire nonprofit.

We have enlisted several nonprofits to participate as partners in the course. At the end of the quarter, students will present their findings to the nonprofit (outside of class) and present a summary to the class.

Two groups will have a slightly different structure. Instead of a nonprofit, the client will be Charity Navigator, and you will work with Charity Navigator to put together an approach for rating the impact of charities all engaged in a specific activity. The final deliverable will be tailored to the needs of the client, Charity Navigator, but will be comparable in terms of difficulty and hours required.

Project Selection: Students will rank their preferences for the Impact Audit Projects in Week 1 of the course. If you have identified a group of students that you would like to work with for this project, have one student submit on behalf of your group. If you submit individually, we will then match you with others based on project preferences.

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

All students must commit to attending (virtually) the final presentations, which will be scheduled outside of class the week of March 1.

CLASS \$50,000 GRANT DECISION

With support from two donors, students will have \$50,000 to donate to the nonprofit or nonprofits of their choice. The choice set of nonprofits for class grant consideration will include (a) nonprofits reviewed in problem sets, (b) nonprofits analyzed for your GIR Midterm assignment, and (c) nonprofits analyzed for impact audit projects.

Students will decide the criteria, decision-making process, and the final grant or grants to make. Nonprofit partners who have worked with us in the past may be aware of funding potential, but please refrain from introducing the idea, so that we do not unnecessarily create false expectations of funding.

COURSE FORMAT

| ECON 359 Weekly Plan | | | | |
|-----------------------------|---------------------------|--|---|---|
| Week | Class # & Date | Discussion Details | Impact Audit Project (IAP) Tasks & Deliverables | Other Deliverables |
| Week 1 | Class 1: 1/3 | Introduction Why and how we give | Complete Qualtrics poll on project preferences by 1/5 | |
| | Class 2: 1/5 | Why should nonprofits exist | Students notified of project assignment by 1/10 and introduced to partner nonprofits. | Short Assignment #1 |
| Week 2 | Class 3: 1/10 | Estimating nonprofit impact | Groups have introductory call with partner nonprofit. | Short Assignment #2 |
| | Class 4: 1/12 | Large philanthropy | Schedule your final presentations for week of March 1 st . Check google sheet, linked on Canvas, for available times. | Short Assignment #3 |
| Week 3 | No Class: 1/17 | No class (MLK Day) | | |
| | Class 5: 1/19 | Estimating Impact: Choosing primary outcomes & counterfactual alternatives | First Deliverable Due: Theory of Change (TOC), Primary Outcome, and Literature Review Summary | |
| Week 4 | Class 6: 1/24 | Estimating Impact: Choosing primary outcomes & counterfactual alternatives (continued) | Present TOC to nonprofit and agree on outcome with client. Create and share questionnaire with client to collect additional information | Problem Set #1 |
| | Class 7: 1/26 | Estimating Impact: Sample Audits and Problem Set #1 Debrief | | |
| Week 5 | Class 8: 1/31 | Estimating Impact: continued & Q&A Short discussion on grant criteria | Info-gathering & questionnaire complete; start developing cost-effectiveness estimation model | Guided Impact Report (GIR) due 2/8 |
| | Class 9: 2/2 | Grant Criteria Discussion | | Students come prepared to discuss GIRs and the Problem Set #1 nonprofits. |

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|---------------------|-------------------|--|---|---------------------|
| Week 6 | Class 10: 2/7 | No lecture. Students work in groups on IAPs and professor team floats. | Impact and cost model proposal | Problem Set #2 |
| | Class 11: 2/9 | No lecture. Students work in groups on IAPs and professor team floats. | | Problem Set #3 |
| Week 7 | Class 12: 2/14 | Class discussion of specific audits and group work | Draft impact audit report (also send to clients for feedback) | |
| | Class 13: 2/16 | Impact Investing | | Short Assignment #4 |
| Week 8 | Class 14: 2/21 | Presentations (and grant discussions) | Student groups present to nonprofit clients and/or professor <u>outside of class</u> any day this week (Graded) | |
| | Class 15: 2/23 | Presentations (and grant discussions) | | |
| Week 9 | Class 16: 2/28 | Last Class. \$10,000 funding discussion and decision! | | |
| | Class 17: 3/2 | No Lecture. Optional group meetings | | |
| Week 10 (Finals) | 3/7 – 3/9 | | Final impact audit report due on 3/9 (Graded) Peer review due 3/9 (Graded) | |

CLASS & PROJECT SCHEDULE

Class #1 (1/3): 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: Sullivan, Paul. "[Two Paths for Charitable Giving: From the Head or From the Heart.](#)" *New York Times*, June 28th 2013.
- Suggested: Singer, Peter. "[The Drowning Child and the Expanding Circle.](#)" 1997.

Class #2 (1/5): 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 \$10,000 grant (ex: all to one? criteria? voting process).

Readings:

- Required: Gugerty and Karlan, *The Goldilocks Challenge*, "The Retail Donor Perspective", Ch 15 (pgs 254-266)
- Required: [HBS Background Note: Responding to Market Failures](#) (Available for purchase)

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.

Impact Audit Project: By 11:59pm CT on 1/5, complete Qualtrics poll (link posted on canvas) on project preferences. Students will be notified of assignments by the end of day 1/10. Every effort will be made to match student groups with one of their top preferences.

Groups will then:

- Pick a point of contact (POC) to communicate with the nonprofit client.
- POC follows up with client to schedule a kickoff call.
- Start work on the first impact audit deliverable, due in week 3.

Class #3 (1/10): 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:

- Required: Gugerty and Karlan, *The Goldilocks Challenge*, ch 2-3 (pgs 15-24 and 30-48; pages 25-29 are optional)
- Required: Duflo, Esther. [2019 Prize Lectures in Economic Sciences](#). Dec 8, 2019. (starting at minute 50:30 in video)

- Suggested: Duflo, Esther. "[Social Experiments to Fight Poverty](#)." TED2010 Talk. Feb 2010.

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 1/21:

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

Class #4 (1/12): 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:

- Required: Kolbert, Elizabeth. "[Gospels of Giving for the New Gilded Age](#)", *The New Yorker* 2018.
- Required: Dittkoff & Grindle, "[Audacious Philanthropy](#)", *Harvard Business Review* 2017.
- Required: Ebrahim, Alnoor. "[Let's Be Realistic About Measuring Impact](#)." *Harvard Business Review*. Mar 13, 2013.
- 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 (14minute video). "Greg Mortenson." CBS News, Apr 17, 2011. Link: <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 (1/19): Estimating Impact: Choosing primary outcomes & counterfactual alternatives

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: Gugerty and Karlan, *The Goldilocks Challenge*, Chapter 6
- Required: Graduation Programs (example 1)
 - 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.

- Village Enterprise Impact Audit, by ImpactMatters, 2018.
- Required: Scholarship Programs (example 2)
 - Angrist, Joshua, David Autor, Sally Hudson, and Amanda Pallais. "[Evaluating Post-Secondary Aid: Enrollment, Persistence, and Projected Completion Effects.](#)" NBER Working Paper 23015. December 2016.
 - Postsecondary Scholarships Methodology, by ImpactMatters, 2019.
- Required: Cataract Surgery Programs (example 3)
 - Cataract Surgery Methodology, by ImpactMatters, 2019.

Impact Audit Project: IAP First Deliverable Due on 1/27: Theory of Change, Primary Outcome, and Literature Review Summary. Additional details and instructions on canvas.

By 1/29, each student group should schedule the final presentation for the week of Feb 22. Student groups must find a time that works for Professor Karlan and Annabel Lang. Check google sheet, linked on Canvas, for available times.

- Schedule for a time that works for the nonprofit as well as professor team

Class #6 (1/24): Estimating Impact: Choosing primary outcomes & counterfactual alternatives
(continued)

Readings: (see prior class)

Problem Set #1: This problem set reviews strategies for estimating the counterfactual, using Living Goods as an example. Due on canvas by 11:59pm on 2/1.

Impact Audit Project: By 2/1, student groups should:

- Option A: Present TOC to nonprofit and agree on outcome with client; Create and share questionnaire with client to collect additional info.
- Option B: Identify ~6 nonprofits in cause area; Start collecting publicly-available information and reach out to nonprofits as appropriate (optional).

Class #7 (1/26): Estimating Impact: Sample Audits and Problem Set #1 Debrief

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. We will also review Problem Set #1.

Required Readings:

- Required: Standard for Impact Auditing, by ImpactMatters, 2018.
- Required: Living Goods impact audit, ImpactMatters, 2018.
- Required: Fonkoze Health impact audit, Northwestern Students, 2019.

Class #8 (1/31): Estimating Impact: Continued and Q&A

We will continue discussions on estimating impact and review Q&A from lectures 5-7. The class will also engage in a short discussion on criteria for the class grant, to prepare for the Grant Criteria Discussion and GIR presentations on 2/10.

Impact Audit Project: By 2/8, student groups should:

- Option A: Complete info-gathering & questionnaire; Start developing cost-effectiveness estimation model
- Option B: Complete info-gathering; Start developing cause analysis

Midterm: Guided Impact Report (GIR) due **1/31**. Additional details on Canvas. (Graded)

Class #9 (2/2): 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.

Students should come prepared to discuss GIRs and the Problem Set #1 nonprofits. Students will decide on (a) a process for deciding, and (b) which nonprofits should continue to be considered for class grant.

Readings:

- Required: Singer, Peter. The Most Good You Can Do. Ch 14, Choosing the Best Organizations (pgs 107-136).
- Required: Singer, Peter. "[Good Charity, Bad Charity.](#)" *The New York Times*, Op-Ed. Aug 10, 2013.
- Required: Berman, Melissa. "[In Charitable Giving, No 'Hierarchy of Goodness.'](#)" *The New York Times*, Letter to the Editor. Aug 20, 2013.

Class #10 (2/7) and #11 (2/9): Class discussion and group check-in meetings

No lecture. Students work in groups on IAPs and professor team floats.

Impact Audit Project: **Deliverable due 2/7** (Ungraded)

- Each group submits in writing a proposal for how to estimate impact and costs. Each student group will get feedback from professor team in writing on the proposal. With feedback, update client on impact and cost model and start writing the impact audit report.

Problem Set #2: This problem set reviews how to estimate nonprofit costs. Due on canvas by 11:59pm on 2/7. Note that problem sets 2 and 3 are related and you may find it easiest to do both at the same time. Early submissions are welcome.

Problem Set #3: This problem set reviews how to estimate societal costs. Due on canvas by 11:59pm on 2/9.

Class #12 (2/14): Class discussion and group check-in meetings

In addition to having group check-in meetings, class time can be used to review any questions on Problem Sets 2 and 3.

Impact Audit Project: Deliverable due 2/14 (Ungraded)

- Option A: Each group submits their draft impact audit report for review. Professor team must review and sign off on the draft report before it is shared with the nonprofit client for feedback ahead of final presentation.
- Option B: Each group submits their draft cause analysis and short audit reports for feedback.

Class #13 (2/16): 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:

- Required: Cole, Shawn, Vikram S. Gandhi, and Caitlin Reimers Brumme. “[Background Note: Managing and Measuring Impact](#).” Harvard Business School, Apr 18, 2018. (Available for purchase)
- Required: Addy, Chris. Maya Chorenge, Mariah Collins, and Michael Etzel. “[Calculating the Value of Impact Investing](#).” *Harvard Business Review*, Jan-Feb 2019.
- Suggested: Brest, Paul and Kelly Born. “[Unpacking the Impact in Impact Investing](#).” *Stanford Social Innovation Review*, Aug 14, 2013.

Short Assignment #4: 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 #14 (2/21): 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 \$10,000 funding decisions.

Impact Audit Project: Final Presentations (Graded)

- Both Option A/B Groups: Each student group will present impact audit findings and recommendations to the professor team (and client, for option A) outside of class during the week of March 1.

Class #15 (2/23): 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 \$10,000 funding decisions.

Impact Audit Project: Final Presentations (Graded)

- Both Option A/B Groups: Each student group will present impact audit findings and recommendations to the professor team (and client, for option A) outside of class during the week of March 1.

Class #16 (2/28): 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. This is the last day that the entire class will meet.

Class #17 (3/2): Group meetings

Student groups should use class time to meet as a team and work on finishing the final projects. Prof. Karlan will be available to meet with student groups but there will be no lecture or entire class meeting.

Impact Audit Project: Deliverables due by 5:00pm CT on March 9 (Graded)

- Both Option A/B Groups: Students will incorporate feedback from final presentation into the final impact audit report.
- Final impact audit report submitted to client and Professor Karlan (Both). Students must also submit a peer review.