Economics 742 examines the literature in several applied, empirical areas of public economics, focusing particularly on tax and expenditure policy. The purpose of this course is to gain an understanding of the literature and to develop insight into current research issues in the field. The reading list is too long to be covered in this course. It is provided to give some of the important citations in the areas I will cover. Pay very close attention to papers marked ** and read papers marked with *. The prerequisites for the course are Economics 711 and 713 and a graduate level course in econometrics.

Papers and Texts:

There is no required textbook for the course. Some useful textbooks in public economics are given at the beginning of this reading list. Gruber (an undergrad text) is available in the bookstore.

Lectures:

Mondays and Wednesdays 1:00-2:30, 6232 Social Science. There will be no class on Wednesday, November 15.

Grading:

I will assign four (or so) problem sets that will be collected and (lightly) graded. You should feel free to work together on these, but you must turn in your own work. The problem sets will sometimes make use of the statistical packages Stata or Gauss, available for classroom and research use in the social science computer center. If you have not yet done so, please become familiar with the computer center on the third floor of social science and get whatever authorization you need to use their machines.

There will be an in-class final exam to be scheduled at a mutually agreeable time. Grades will be based on a combination of problem sets (30 percent), the final exam (60 percent), and class participation (10 percent).

Course Web Site:

I will post course material at [http://www.ssc.wisc.edu/~scholz/teaching_742.htm](http://www.ssc.wisc.edu/~scholz/teaching_742.htm)

Field Paper:

For students in the public economics field, a field paper is due August, 2007. If you are writing a field paper in Public, start talking to the public faculty (Professors Brown, Cooley, Wolfe, or me) sometime before the summer (ideally well before the summer).

Grievance Procedure:

A blurb about the Economics Department grievance procedure is on the last page of the syllabus.
Journal Abbreviations for the Syllabus

AER American Economic Review  
BPEA Brookings Papers on Economic Activity  
Econ Econometrica  
JEL Journal of Economic Literature  
JEP Journal of Economic Perspectives  
JPE Journal of Political Economy  
JHR Journal of Human Resources  
NTJ National Tax Journal  
QJE Quarterly Journal of Economics

Useful General References

Auerbach, A. and M. Feldstein, Handbook of Public Economics, Volumes 1-4, Amsterdam: North  
Hindriks, Jean and Gareth D. Myles, Intermediate Public Economics, MIT Press, 2006
good undergraduate text)
Stiglitz, J. Economics of the Public Sector, 3rd edition, Norton, 1999 (undergraduate text)

Useful Advice to Economists (read on your own)

McCloskey, Donald, "Economical Writing," Economic Inquiry, April, 1985, 187-222
Hamermesh, Daniel S., "The Young Economist's Guide to Professional Etiquette," JEP, Winter,  
1992, 169-179

I. Introduction

December, 2002, 319-326

II. Optimal Taxation and Evasion

* Auerbach, Alan J. and James R. Hines, “Taxation and Economic Efficiency,” Handbook of Public  
Economics, Vol. 3, 1347-1421
* Slemrod, Joel and Shlomo Yitzhaki, “Tax Avoidance, Evasion, and Administration,” Handbook of  
Public Economics, Vol. 3, 1423-1470
* Parry, Ian W. H. and Kenneth A. Small, “Does Britain or the United States Have the Right Gasoline  
III. Tax Rates and Taxable Income


IV. Taxation and Saving, and Tax Incentives to Promote Household Saving

** Gale, William G. and John Karl Scholz, "IRAs and Household Saving," AER, December, 1994, 1233-1260
Poterba, Jim, Steve Venti, and David Wise, "How Retirement Saving Programs Increase Saving," JEP, Fall 1996, 91-112

V. Are Americans Preparing Adequately for Retirement?

Hubbard, Glenn, Jon Skinner, and Steve Zeldes, "The Importance of Precautionary Motives in Explaining Individual and Aggregate Saving," JPE, April, 1995, 360-399
Boskin, Michael, "Taxation, Saving, and the Rate of Interest," JPE, Part 2, April 1978, pp. 3-27
Hall, Robert, "Intertemporal Substitution in Consumption," JPE, 96, 1988, pp. 337-357

VI. Taxation and Individual Financial Behavior
** Poterba, James, “Taxation, Risk-Taking, and Household Portfolio Behavior,” Handbook of Public Economics, volume 3. 1110-1171

Auerbach, Alan, "Retrospective Capital Gains Taxation," AER, 1991
Poterba, James, "How Burdensome are Capital Gains Taxes?" JPubE, 33, 1987, 157-172

VII. The Corporate Income Tax, Capital Structure and Other Aspects of Financial Policy

Gordon, Roger and Burton Malkiel, "Corporation Finance", in How Taxes Affect Economic Behavior, Aaron and Pechman (eds), Brookings, 1981


Auerbach, Alan "Wealth Maximization and the Cost of Capital," *QJE*, August, 1979


Bhattacharya, Sudipto, "Imperfect Information, Dividend Policy, and 'The Bird in the Hand' Fallacy," *Bell Journal*, Spring, 1979


Miller, Merton and Franco Modigliani, "Dividend Policy, Growth and Valuation of Shares," *Journal of Business*, October, 1961


### VIII. The Earned Income Tax Credit: Taxes and Labor Supply at Low Incomes


### IX. Income Transfer Programs


Blank, Rebecca M. and Patricia Ruggles, "When Do Women Use Aid to Families with Dependent Children and Food Stamps?" JHR, Winter, 1996, 57-89

Currie, Janet and Duncan Thomas, “Does Head Start Make a Difference?” AER, 85:3, 1995, 341-64
Garces, Eliana, Duncan Thomas and Janet Currie, “Longer Term Effects of Head Start,” NBER WP #8054, December 2000

X. Social Security and Social Insurance


Samuelson, Paul, "An Exact Consumption Loan Model of Interest with and without the Social Contrivance of Money," JPE, December, 1958
Feldstein, Martin, "Should Social Security be Means Tested?" *JPE*, 1987, 468-84

Feldstein, Martin, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," *JPE*, September, 1974 (also comment in 1982)


**XI. Intergovernmental Fiscal Relations**


There are many other issues in public economics that I would love to cover if there was more time. As you continue to study the field and develop topics for your research, the following citations may come in handy.
Tax Incidence

Gravelle, Jane and Laurence Kotlikoff, "The Incidence and Efficiency Costs of Corporate Taxation when Corporate and Noncorporate Firms Produce the Same Goods," JPE, 1989
Joint Committee on Taxation, "Methodology and Issues in Measuring Changes in the Distribution of Tax Burdens," Joint Committee Print, June 14, 1993
Shoven, John and John Whalley, "Applied General Equilibrium Models of Taxation and International Trade," JEL, September, 1984

Expenditure Incidence


The Theory of Labor Taxation


Understanding Economic Behavior: Nonstructural Approaches

Heckman, James J., "Comment," in Empirical Foundations of Household Taxation, Feldstein and
Taxes and Labor Supply


Hausman, Jerry, "Taxation and Labor Supply," in Handbook of Public Economics, Auerbach and Feldstein (eds), North Holland, volume 1, 1987


**Excise Taxes**


**Estate Taxes**


**Sales Taxes**


**Property Taxes**


**The Corporate Income Tax and Investment**


Summers, Lawrence, "Taxation and Corporate Investment: A Q-Theory Approach," BPEA, 1981:1

Grievance Procedure

The Department of Economics has developed a grievance procedure though which you may register comments or complaints about a course, an instructor, or a teaching assistant. The Department continues to provide a course evaluation each semester in every class. If you wish to make anonymous complaints to an instructor or teaching assistant, the appropriate vehicle is the course evaluation. If you have a disagreement with an instructor or teaching assistant, we strongly encourage you to try and resolve the dispute with him or her directly. The grievance procedure is designed for situations where neither of these channels is appropriate.

If you wish to file a grievance, you should go to room 7238 Social Science and request a Course Comment Sheet. When completing the comment sheet, you will need to provide a detailed statement that describes what aspects of the course you find unsatisfactory. You will need to sign the sheet and provide your student identification number, your address, and a phone number where you can be reached. The Department plans to investigate comments fully and will respond in writing to complaints.

Your name, address, phone number, and student ID number will not be revealed to the instructor or teaching assistant involved and will be treated as confidential. The Department needs this information, because is may become necessary for a commenting student to have a meeting with the department chair or a nominee to gather additional information. A name and address are necessary to provide a written response.