**University of Wisconsin-Madison, Department of Economics**
**Economics 741: Public Economics**
Spring 2007
http://www.ssc.wisc.edu/~mbrown/741.htm

Prof. Meta Brown
Office: 7442 Social Science
Hours: TR 12:15-1:15pm
Phone: 262-8789
Email: mbrown@ssc.wisc.edu

Lectures MW 1-2:15pm
6102 Social Science

Economics 741 studies the literature on the effects of government taxes, expenditures, and mandates on the decision-making of individuals, families, and firms, with emphasis on both applied theory and empirics. Students will gain familiarity with the Public Economics literature and some knowledge of topics of current relevance in the field, with the goal of developing independent research programs.

## Readings

The reading list offers an introduction to the literature on each of the nine topics addressed in the syllabus. Required readings are marked with **, and strongly recommended readings are marked with *. Many additional sources are listed for students who identify topics of particular interest.

## Grading

PROBLEM SETS (20%): Approximately three problem sets will be assigned during the semester. These will be collected and graded. Group work is permitted, and one problem set may be submitted by three or fewer group members. Some problems will require use of STATA and GAUSS. This software is available to students in the third floor lab. Take special care to understand all solutions to problem sets, as this will be important preparation for the final exam.

PRESENTATION (20%): During two weeks in the second half of the semester, each class member will make a presentation of roughly 30 minutes on a topic of her choosing. Presentations will involve overviews of the literature on the student's topic, which must relate to government activities and their influence on individual or firm-level decisions. It is intended that these literature surveys support students' field paper research. Students will be expected to provide written notes to accompany presentations, and the final exam will include questions drawn from the information in some of the student presentations.

FINAL EXAM (60%): There will be an in-class, open-note final examination during the examination period. The date of the exam will be determined by the class later in the semester.

## Class web site

The syllabus, problem sets and some rough lecture notes will be posted on the class web site, which you can link to from www.ssc.wisc.edu/~mbrown/741.htm.

**Field paper**

Students in the public economics field must submit a field paper by August 2007. Public economics field advisors are Jane Cooley, Karl Scholz, Bobbi Wolfe, and me. If you intend to submit a paper to the public field and you have not yet identified a public faculty member to advise your paper, please do so as soon as possible.

**Journal abbreviations**

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|---|---|
| AER | American Economic Review |
| EMA | Econometrica |
| JEP | Journal of Economic Perspectives |
| JPE | Journal of Political Economy |
| NTJ | National Tax Journal |

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|---|---|
| BPEA | Brookings Papers on Economic Activity |
| JEL | Journal of Economic Literature |
| JHR | Journal of Human Resources |
| JPubE | Journal of Public Economics |
| QJE | Quarterly Journal of Economics |

## I. Tax Incidence and Mandate Incidence

Tax Incidence

** Fullerton, D. and G. Metcalf, "Tax Incidence," in A. Auerbach and M. Feldstein, eds., *Handbook of Public Economics*, Vol. 4, Amsterdam: Elsevier, 2002.

Kotlikoff, L. and L. Summers, "Tax Incidence," *Handbook of Public Economics,* v2, 1987.

Fullerton, D. and G. Heutel, "The General Equilibrium Incidence of Environmental Taxes," Journal of Public Economics (forthcoming).

Cutler, D.,"Tax Reform and the Stock Market: An Asset Price Approach," AER December 1988 1107-1117.

Atkinson, A. B. and J. E. Stiglitz, *Lecture on Public Economics*, Mcgraw Hill 1980, Ch. 6.

Diamond, P.,"Tax Incidence in a Two-Good Model," JPubE 1978.

Harberger, A.,"The Incidence of the Corporate Income Tax," JPE June 1962.

Lang, M. H. and D. Shackleford, "Capitalization of Capital Gains Taxes: Evidence from Stock Price Reactions to the 1997 Rate reduction," JPubE April 2000, 69-85.

McClure, C. "General Equilibrium Incidence Analysis: The Harberger Model After 10 Years," JPubE February 1975.

Life Cycle Incidence

** Fullerton, D. and D. Rogers, *Who Bears the Lifetime Tax Burden?* (Washington: Brookings Institution, 1993), Ch 1.

Poterba, J. “Lifetime Incidence and the Distributional Burden of Excise Taxes,” AER 79 (May 1989), 325-330.

Mandate Incidence

** Summers, L., “Some Simple Economics of Mandated Benefits,” AER May 1989, 177-189.

** Gruber, J. “The Incidence of Mandated Maternity Benefits,” AER June 1994, 622-641.

Gruber, J. and A. Krueger, “The Incidence of Mandated Employer-Provided Insurance: Lessons from Workers’ Compensation Insurance,” Tax Policy and the Economy, D. Bradford (ed.), NBER and MIT Press, 1991, 111-143.

Fullerton, D. and G. Heutel, "The General Equilibrium Incidence of Environmental Mandates," 2006.

## II. Taxation and Labor Supply

Government-induced irregularities in the budget constraint, individual decision-making and estimation issues

** Moffitt, Robert, “The Econometrics of Kinked Budget Constraints,” JEP Spring 1990 119-139.

Blomquist, S., M. Eklof and W. Newey, “Tax Reform Evaluation Using Nonparametric Methods: Sweden 1980-1991,” JPubE 79 (2001), 543-568.

* Blundell, R., A. Duncan and C. Meghir, “Estimating labor Supply Responses Using Tax Reforms,” EMA 66 (1998), 827-862.

Bosworth, B. and G. Burtless, “Effects of Tax Reform on Labor Supply, Investment and Saving,” JEP 6 (1992), 3-25.

Hausman, J., “Labor Supply,” in *How Taxes Affect Economic Behavior*, H. Aaron and J. Pechman (eds), Washington: Brookings, 1981.

Hausman, J., “The Econometrics of Nonlinear Budget Sets,” EMA November 1985.

Hausman, J. and J. Poterba, “Household Behavior and the tax Reform Act of 1986,” JEP 1 (1987), 101-119.

Heckman, J., “Comment,” in Feldstein (ed) Behavioral Simulations in Tax Policy Analysis (Chicago: University of Chicago Press), 1982, 70-82.

MaCurdy, T., “Work Disincentive Effects of Taxes: A Reexamination of Some Evidence,” AER 80 (1992), 243-249.

MaCurdy, T., D. Green and H. Paarsch, “Assessing Empirical Approaches for Analyzing Taxes and Labor Supply,” JHR Summer 1990.

Mroz, T., “The Sensitivity of an Empirical Model of Married Women’s Hours of Work to Economic and Statistical Assumptions,” EMA July 1987, 765-800.

Ziliak, J. and T. Kniesner, “Estimating Life Cycle Labor Supply Tax Effects,” JPE, April 1999, 326-359.

Married Earners

** Eissa, N., “Taxation and the Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment,” NBER Working Paper 5023, 1995.

Dickert-Conlin, S. and S. Houser, "The EITC and Marriage," NTJ 55, 25-40, March 2002.

Dickert-Conlin, S. and S. Houser, "Taxes and Transfers: A New Look at the Marriage Penalty," NTJ 51(2), 175-218, 1998.

Eissa, N. and H. Hoynes, “Taxes and The Labor Market Participation of Married Couples: The Earned Income Tax Credit,” JPubE, vol88, August, 2004, pp1931-1958.

Cullen, J. B. and J. Gruber, “Spousal Labor Supply as Insurance: Does Unemployment Insurance Crowd Out the Added Worker Effect?” NBER Working Paper 5608, 1996, and JOLE 2000.

Dickert-Conlin, S., "Taxes and Transfers: their Effect on the Decision to End a marriage." JPubE 73(2) 1999, 217-240.

Gravelle, J. G., “Equity Effects of the Tax Reform Act of 1986,” (in Symposia: Tax Reform Act of 1986) JEP 6(1) (1992), 27-44.

Hoynes, H. W., “Welfare Transfers in Two-Parent Families: Labor Supply and Welfare Participation Under AFDC-UP,” EMA, March 1996, 295-332.

## III. Public Goods

** Samuelson, Paul A., “The Pure Theory of Public Expenditure,” *Review of Economics and Statistics*, Nov. 1954, 387-389.

** Bergstrom, Theodore, Laurence Blume and Hal Varian, “On the Private Provision of Public Goods,” *Journal of Public Economics*, 1986, v 29, 25--49.

** Andreoni, James, “Privately Provided Public Goods in a Large Economy: The Limits of Altruism,” *Journal of Public Economics*, February 1988, v 35, 57--73.

Andreoni, James, “Impure Altruism and Donations to Public Goods: A Theory of Warm-Glow Giving,” *Economic Journal*, 100, 1990.

Andreoni, James and Ted Bergstrom, "Do Government Subsidies Increase the Private Supply of Public Goods?" *Public Choice*, v. 88, 1996, 295-308.

Andreoni, James, "Giving with Impure Altruism: Applications to Charity and Ricardian Equivalence," *Journal of Political Economy*, December, 1989, 1447--1458Becker, G., "A Theory of Social Interactions," *Journal of Political Economy*, 1974.

Bernheim, B. D., "On the Voluntary and Involuntary Provision of Public Goods," *American Economic Review*, 1986.
.
Lindahl, E., "Just Taxation --- A Positive Solution," in Musgrave and Peacock, ed., *Classics in the Theory of Public Finance*, Macmillian, 1958, 168--176.

Samuelson, Paul A., "Diagrammatic Exposition of a Theory of Public Expenditures," *Review of Economics and Statistics*, 1955, 350--356.

Samuelson, Paul A., "Pure Theory of Public Expenditure and Taxation," in Margolis and Guitton, eds., *Public Economics*, Macmillian, 1969, 492--517.

Varian, Hal R., "Sequential Provision of Public Goods," *Journal of Public Economics*, 1994, 53, 165--86.

Warr, Peter, "Pareto Optimal Redistribution and Private Charity," *Journal of Public Economics*, 1982.

Laffont, Chapter 2.1 -- 2.4, 2.7

Cornes and Sandler, Chapter 6, 7, 8

Experimental studies:

Ledyard, J., "Public Goods: A Survey of Experimental Research," in J. H. Kagel & A.E. Roth, eds., *Handbook of Experimental Economics*, Princeton, 1995.

Andreoni, J., "Cooperation in Public Goods Experiments: Kindness or Confusion?" AER September 1995, 85, 891-904.

Andreoni, J. and L. Vesterlund, "Which is the Fair Sex? Gender Differences in Altruism," QJE, February 2001.

Andreoni, J. and Ragan Petrie, "Public Goods Experiments Without Confidentiality: A Glimpse Into Fund0Raising," JPubE, 88(7-8), 2004, 1605-1623.

## IV. Externalities

** Cornes and Sandler, Chapters 3 and 4, on Externalities.

** Andreoni, James, and Arik Levinson, "The Simple Analytics of the Environmental Kuznets Curve," *Journal of Public Economics*, v 80, 2001, 269-286.

Bovenberg, A. Lans, and Ruud A. de Mooij, "Environmental Levies and Distortionary Taxation," *American Economic Review*, September 1994, 1085--1089.

Coase, R., "The Problem of Social Cost," *Journal of Law and Economics*, 1960, 1--44.

Dixit, Avinash and Mancur Olson, "Does Voluntary Participation Undermine the Coase Theorem?" *Journal of Public Economics*, June 2000, 309-336.

Ebrill, L. and Steve Slutsky, "Time, Congestion and Public Goods," *Journal of Public Economics*, 1982, 307--335.

Fullerton, Don, "Environmental Levies and Distortionary Taxation: Comment," *American Economic Review*, March 1997, 245--251.

Fullerton, Don, and Gilbert Metcalf, "Environmental Controls, Scarcity Rents, and Pre-existing Distortions," *Journal of Public Economics*, v 80, 2001, 249—67
Harden, Garret, "The Tragedy of the Commons," *Science*, 1968, December.

Greenwood, Jeremy and R. Preston McAfee, "Externalities and Asymmetric Information," *Quarterly Journal of Economics*, February 1991, 103--122.

## IV. Social Experiments and the Evaluation of Treatment Effects

** Mandatory notes will be distributed on this subject. They draw heavily on notes from W. van der Klaauw and the following references:

Besley, T. and A. Case, "Unnatural Experiments? Estimating the Incidence of Endogenous Policies," NBER Working Paper #4956, 1994.

Burtless, G., "The Case for Randomized Field Trials in Economic and Policy Research," JEP Spring 1995, 63-84.

Goldberger, A., "Selection Bias in Estimating Treatment Effects: Some Formal Illustrations," Discussion Paper 123-72, IRP University of Wisconsin, 1972.

Hahn, J., P. Todd and W. Van der Klaauw, "Identification and Estimation of Treatment Effects with a Regression-Discontinuity Design," EMA 2000.

Heckman, J. J. and J. A. Smith, "Assessing the Case for Social Experiments," JEP, Spring 1995, 85-110.

Heckman, J.J. and R. Robb, "Alternative Methods for Evaluating the Impact of Interventions", in J. Heckman and B. Singer eds., Longitudinal Analysis of Labor Market Data (Cambridge: Cambridge University Press, 1985).

Heckman, J.J., H. Ichimura, and P. Todd, “Matching as an Econometric Evaluation Estimator: Evidence from Evaluating a Job Training Programme", REStud 64 (1997), 605-54.

Imbens, G. and J. Angrist, “Identification of Local Average Treatment Effects,” EMA 62 (1994), 467-475.

Manski, C.F., “Nonparametric Bounds on Treatment Effects", AER Papers and Proceedings 80 (1990), 319-323.

Meyer, B., "Natural and Quasi-Experiments in Economics," *Journal of the Business and Economic Statistics*, 13(2) (1995), 151-61.

## V. Higher Education Finance

** Van der Klaauw, W., (2002) “Estimating the Effect of Financial Aid Offers on College Enrollment: A Regression-Discontinuity Approach,” International Economic Review 43(4).

* Keane, M. P. and K. I. Wolpin (2001), “The Effect of Parental Transfers and Borrowing Constraints on Educational Attainment,” IER 42November), 1051-1103.

** Carneiro, P. and J. Heckman (2002), “The Evidence on Credit Constraints in Post-Secondary Schooling,” EJ 112, 705-734.

Kane, T. J. (1994), “College Entry by Blacks since 1970: The Role of College Costs, Family Background, and the Returns to Education,” JPE 102(5).

Kane, T. J. (2003), “A Quasi-Experimental Estimate of the Impact of Financial Aid on College-Going,” NBER working paper 9703.

** Brown, M., J. K. Scholz, and A. Seshadri (2006), “Educational Borrowing Constraints, Parental Generosity, and the Effects of Financial Aid Policy,” working paper.

Cameron, S. V. and C. Taber, “Estimation of Educational Borrowing Constraints Using Returns to Schooling,” JPE 2004, 112(1) p1.

Dynarski, S. (2003) “Does Aid Matter? Measuring the Effects of Student Aid on College Attendance and Completion,” AER 93(1).

Lochner, L. and A. Monge (2002), “Human Capital Formation with Endogenous Credit Constraints,” working paper.

Shea, J. (2000), “Does Parents’ Money Matter?” JPE 77 ( August), 155-184.

Sauer, R. M. (2004), “Educational Financing and Lifetime Earnings,” REStud 71(4), 11189-1216.

Stinebrickner, R. and T. R. Stinebrickner (2003), "Working During School and Academic Performance," JOLE 21(2), 449-472.

**VI. Personal Bankruptcy and Consumer Credit**

** Gropp, R., J. K. Scholz, and M. J. White, "Personal Bankruptcy and Credit Supply and Demand," QJE 112(1), Feb 1997, 217-251.

Kehoe, T. and D. Levine, "Bankruptcy and Collateral in Debt Constrained Markets," NBER working paper 12656, 2006.

* Livshits, I., J. McGee, and M. Tertilt, "Consumer Bankruptcy: A Fresh Start," AER 2006.

Livshits, I., J. McGee, and M. Tertilt, "Accounting for the Rise in Consumer Bankruptcies," working paper, 2006.

Mateos-Planas, X. and G. Seccia, "Welfare Implications of Endogenous Credit Limits with Bankruptcy," JEDC 2006.

Chatterjee, S., D. Corbae, M. Nakajima, and J.-V. Rios-Rull, "A Quantitative Theory of Unsecured Consumer Credit with Risk of Default," University of Pennsylvania working paper, 2002.

* Fay, S., E. Hurst, and M. J. White, "The Household Bankruptcy Decision," AER 92(3), 706-718, 2002.

**VII. Intergenerational Transfers**

** Kotlikoff, L. and A. Spivak, "The Family as an Incomplete Annuities Market," JPE 89(2) (1981), 372-91.

** Altonji, J., F. Hayashi and L. Kotlikoff, "Parental Altruism and Inter Vivos Transfers: Theory and Evidence," JPE 105 (1997), 1121-1166.

** Brown, M., M. Mazzocco, J. K. Scholz, and A. Seshadri, "Tied Transfers," working paper, 2006.

Bruce, Neil and Michael Waldman. 1990. "The Rotten-Kid Theorem Meets the Samaritan's Dilemma." QJE, 105 (1): 155-65.

Bruce, Neil and Michael Waldman. 1991. "Transfers in Kind: Why They Can be Efficient and Nonpaternalistic." AER, 81: 1345-51.

Coate, Stephen. 1995. "Altruism, the Samaritan's Dilemma, and Government Transfer Policy." AER, 85(1), March, 46-57.

Lindbeck, Assar and Jorgen W. Weibull. 1988. "Altruism and Time Consistency: The Economics of Fait Accompli." JPE, 96: 1165-1182.

Pollak, Robert A. 1988. “Tied Transfers and Paternalistic Preferences.” AER, 78(2), May: 240-44.

Brown, M., “Informal Care and the Division of End-of-Life Transfers,” JHR, winter 2006.

Barro, R., “Are Government Bonds Net Wealth?,” JPE, 1974.

Bernheim, B. D. and Bagwell, “Is Everything Neutral?,” JPE, April 1988.

Bernheim, B. D., A. Shleifer and L. Summers, “The Strategic Bequest Motive,” JPE 93 (1985), 1045-1076.

Gale, W. and M. Perozek, “Does the Estate Tax Reduce Saving?” Working Paper, Office of Tax Policy Research, University of Michigan Business School.

Gale, W. G. and J. K. Scholz, “Intergenerational Transfers and the Accumulation of Wealth,” JEP, 1994.

Gale, W. G. and J. B. Slemrod, “We Tax Dead People,” Working Paper, Office of Tax Policy Research, University of Michigan Business School.

Kaplow, L., “Tax Policy and Gifts,” *AEA Papers and Proceedings* 88(2), 1998, 283-288.

Kotlikoff, L., “Intergenerational Transfers and Savings,” JEP, Spring 1988, 41-58.

Laitner, J. and H. Ohlsson, “Bequest Motives: A Comparison of Sweden and the United Sates,” JPubE 79 (2001), 205-236.

McGarry, K., “The Cost of Equality: Unequal bequests and Tax Avoidance,” JPubE 79 (2001), 179-204.

McGarry, K., “Inter Vivos Transfers and Intended Bequests,” JPubE 73 (1999), 321-351.

Modigliani, F., “The Role of Intergenerational Transfers and Life Cycle Saving in the Accumulation of Wealth,” JEP 2 (1988), 15-40.

Poterba, J., “The Estate and Gift Tax and Inter Vivos Giving in the United States,” JPubE 79 (2001), 237-264.

Wilhelm, M. O., “Bequest Behavior and the Effect of Heirs’ Earnings: Testing the Altruistic Model of Bequests,” AER 86 (1996), 874-892.

Altig, David and Davis, Steven J. 1992. “The Timing of Intergenerational Transfers, Tax Policy, and Aggregate Savings,” AER, *82*(5): 1199-220.

Altonji, Joseph G., Fumio Hayashi, and Laurence J. Kotlikoff. 1992. “Is the Extended Family Altruistically Linked? Direct Tests Using Micro Data,” AER, 82 (5): 1177-98.

Becker, Gary S. 1974. “A Theory of Social Interactions.” JPE, 82: 1063-1093.

Browning, M. and P.-A. Chiappori (1998), “Efficient Intra-Household Allocations: a General Characterization and Empirical Tests,” EMA, 66: 1241-1278.

Perozek, Maria G. 1996. “The Implications of a Dynamic Model of Altruistic Intergenerational Transfers.” Mimeo, Board of Governors of the Federal Reserve.

**VIII. Divorce and the Economics of the Family**

** Brown, M. and C. Flinn, “Investment in Children Over Marital States,” mimeo, New York University, 2006.

** Del Boca, D. and C. Flinn, “Expenditure Decisions of Divorced Mothers and Income Composition,” JHR 1994.

* Weiss, Y. and R.J. Willis (1993), "Transfers Among Divorced Couples: Evidence and Interpretation," JOLE 11, 629-679.

* Weiss, Y. and R. J. Willis (1997), "Match Quality, New Information and Marital Dissolution," JOLE 15, S293-S329.

Flinn, C. (2000), "Modes of Interaction Between Divorced Parents," International Economic Review 41, 545-578.

Liu, H., T. Mroz, and W. van der Klaauw, “Maternal Employment, Migration and Child Development,” working paper, 2005.

Blau, D. and W. van der Klaauw, “A Demographic Analysis of the Family Structure Experiences of Children in the United States,” working paper, 2006.

M. Tartari, “Divorce and the Cognitive Achievement of Children,” working paper, Yale, 2006.

Gruber, J., “Is Making Divorce Easier Bad for Children? The Long Run Implications of Unilateral Divorce,” NBER Working Paper #7968.

Peters, H. E., “Marriage and Divorce: Informational Constraints and Private Contracting,” AER 76(3) (1986).

Aiyagari, S. R., J. Greenwood and N. Guner (2000), "On the State of the Union," Journal of Political Economy 108, 213-244.

Aiyagari, S. R., J. Greenwood and A. Seshadri, “Efficient Investment in Children,” JET 102 (2002), 290-321.

Becker, G. S. (1981). A Treatise on the Family. Cambridge: Harvard University Press, 1981.

Becker, G. S., E. M. Landes and R. T. Michael (1977), "An Economic Analysis of Marital Instability," JPE 85, 1141-1187.

Brien, M. J., L. A. Lillard and S. Stern (forthcoming), "Cohabitation, Marriage and Divorce in a Model of Match Quality," IER.

Chiappori, P.-A., B. Fortin and G. Lacroix (2002), "Marriage Market, Divorce Legislation and Household Labor Supply," JPE 110, 37-72.

Friedberg, L. (1998), "Did Unilateral Divorce Raise Divorce Rates? Evidence from Panel Data," AER 88, 608-627.

Haveman, R. and B. Wolfe (1995), "The Determinants of Children's Attainments: A Review of Methods and Findings," JEL 33, 1829-1878.

Lundberg, S. and R. A. Pollak (1994), "Non-cooperative Bargaining Models of Marriage," AER Papers and Proceedings 84, 132-137.

Nixon, L.A. (1997), "The Effect of Child Support Enforcement on Marital Dissolution," JHR 32, 159-181.