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), Salanie, and the 3rd volume of the Handbook of Public Economics are in the bookstore (but do not buy, unless you are planning to specialize in the field, in which case you might want to start building your library).

**Lectures:**

Mondays and Wednesdays 1:00-2:30, 4308 Social Science

**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, 2006. If you are writing a field paper in Public, start talking to the public faculty (Professors Brown, Wolfe, or me).

**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  JHR  Journal of Human Resources
NTJ  National Tax Journal  QJE  Quarterly Journal of Economics

Useful General References

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

I. Introduction


II. Tax Rates and Taxable Income


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

** Bernheim, B. Douglas, “Taxation and Saving,” Handbook of Public Economics, volume 3. 1173-1249


** 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


IV. Are Americans Preparing Adequately for Retirement?


** Scholz, John Karl, Ananth Seshadri, and Surachai Khitatrakun, “Are Americans Saving ‘Optimally’ for Retirement?” mimeo, 2005, forthcoming JPE

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

V. Taxation and Individual Financial Behavior


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

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


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


** VII. The Earned Income Tax Credit: Taxes and Labor Supply at Low Incomes **


** VIII. 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

IX. Social Insurance


X. Social Security

** Feldstein, Martin and Jeffrey Liebman, “Social Security,” Handbook of Public Economics, volume 4, 2245-2315


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


Diamond, Peter and Jerry Hausman, "Individual Retirement and Savings Behavior," JPubE, 23, 1984
Feldstein, Martin, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," JPE, September, 1974 (also comment in 1982)

XI. State and Local Public Economics


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

**Expenditure Incidence**


**The Theory of Labor Taxation**


**Understanding Economic Behavior: Nonstructural Approaches**


**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 through 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 it 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.