Economics 741 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 has written a nice undergraduate public economics text, which you should read sometime if you are doing public economics as your major field.

Lectures:

Monday and Wednesday, 11:00-12:15, Social Science 6101. If I am able to travel with my sore leg, I will reschedule the Monday, October 17 lecture. I will try not to reschedule other classes though things may come up that force me to. I apologize for the inconvenience. I will make up all rescheduled lectures at a mutually convenient time.

Grading:

I will assign three (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.

You will write a term paper for the course on a mutually agreeable public economics topic. Grades will be based on a combination of problem sets (40 percent), the term paper (50 percent), and class participation (10 percent).

Course Web Site:


Field Paper:

For students in the public economics field, a field paper is due August, 2012. If you are writing a field paper in Public, start talking to me about it or Professors Wolfe, Taber, or Walker sometime this semester. Professors Taber and Walker will conduct an informal public / applied econometrics reading group in the Spring which will be required for students doing the public field.
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

Hindriks, Jean and Gareth D. Myles, Intermediate Public Economics, MIT Press, 2006

Useful Advice to Economists (read on your own)

McCloskey, Donald, "Economical Writing," Economic Inquiry, April, 1985, 187-222

I. Tax and Expenditure Incidence


L. Kotlikoff and L. Summers. “Tax Incidence,” in A. Auerbach and M. Feldstein, Volume 2, Sections 2.2.1-2.2.3 and 2.3.

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
II. A Brief (once over lightly) discussion of Efficiency and Optimal Taxation


Shoven, John and John Whalley, "Applied General Equilibrium Models of Taxation and International Trade," JEL, September, 1984


### III. Behavioral Effects of Taxation: Tax Rates and Taxable Income


IV. Behavioral Effects of Taxation: Taxation and 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. Fundamental Factors Affecting Wealth Accumulation


* Scholz, John Karl and Ananth Seshadri, "Children and Household Wealth," mimeo, 2009

* Scholz, John Karl and Ananth Seshadri, "Health and Wealth in a Lifecycle Model," mimeo, 2010


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


Bernheim, B. Douglas and Adam Wanz, "A Tax-Based Test of the Dividend Signaling Hypothesis," AER, June, 1995, 532-551
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. 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

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


IX. Credit Constraints for Higher Education


X. 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
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. More Public Policy

There are many other public economics topics 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 be useful.

Overview


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


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


Excise Taxes


Evasion


Estate Taxes


Sales Taxes


Property Taxes


Intergovernmental Fiscal Relations


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 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.