University of California, Davis
Department of Economics
Winter 2013

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EC230A
PUBLIC ECONOMICS

The emphasis in 230A will be on learning techniques that can be applied to produce original research and to critically analyze existing research in the field of public economics. The course will emphasize empirical research and will contain a discussion of relevant econometric techniques used in public economics.

Class Meetings: Tuesday and Thursday, Wellman 211, 2:10-3:30 (or 4:00)

Office Hours: Tuesday 4:00-5:00p, Thursday 9-10 and by appointment (hwhoynes@ucdavis.edu)

Course website: smartsite.ucdavis.edu. There you will find the syllabus, required readings, lecture notes, and problem sets.

Course Requirements:

Paper Summaries (3)	10%
Empirical Problem sets (2)	25%
Referee report	15%
Research proposal	20%
Final Exam	30%

Paper Summaries: Over the course of the term, each student has to complete 3 summaries of a paper discussed in class. These summaries are handed in at the beginning of class. The assignment should include a summary of the paper, its conclusions, and answers to the problems listed below. Keep the summaries to around one page.

Empirical problem sets: There will be 2 problem sets. We will use STATA and estimate models similar to those in papers we have discussed in class. You can work on problem sets together; however, I expect each of you to submit your own solutions. Please present your answers in a clear, concise, preferably typed fashion. In your solution packet, make sure you include Stata do and log files. (Do NOT include pages and pages of "undigested" Stata log files.)

Research proposal: The goal of this exercise is to help you move toward developing a research project. Ideally, this paper would be a short review of the relevant literature (or a particular paper) with ideas about your own project. Depending on how far along you are, this may also include some empirical analysis. I am happy to meet with you to discuss this.

Referee Report: This is a critique of an unpublished empirical paper. You are free to choose the paper you write on. The only papers that are off limits are those we discuss in class. You may, however, choose one on the reading list that we are not discussing in class. Other places to look for unpublished papers are the NBER and SSRN working paper web sites. This report should be no longer than 5 pages and typically is 2 single spaced pages. The role of a referee report is to assist a journal editor in deciding whether to pursue publication of a paper, and if so, which revisions to request. Your report should therefore detail—in your own words—the paper's contribution to the literature (briefly, one paragraph max), key weakness(es), and thoughts on/recommendations for future improvement.

I make heavy use of lecture notes. All of the lecture notes are on the smartsite website. I will be updating and revising them over the term as needed.

Course Outline

I will require no more than 3, and typically only 1 or 2 articles per lecture. I expect you to carefully read these required papers and to be prepared to discuss them in class. **The required readings are in bold.**

I have put all readings on the smartsite website. In general, articles can be obtained from JSTOR (www.jstor.org) or NBER (www.nber.org) or directly through UCD online journal access.

Questions to think about when reading empirical papers:

What question does it ask?
What data is used? What are the key variables?
What empirical model is used? What is the key parameter to be identified?
What is the variation in the treatment? Do you believe this variation?
What are the results and their interpretation? Is there an alternative interpretation?
How does the paper contribute to the literature?

General References:

A. Atkinson and J. Stiglitz, *Lectures on Public Economics*, McGraw-Hill (1980)

A. Auerbach and M. Feldstein, eds., *Handbook of Public Economics*, North-Holland, volumes 1 (1985), 2 (1987), 3 (2002) and 4 (2002). [Note: Full text online at: http://www.sciencedirect.com/science/handbooks/15734420]

B. Salanié, *The Economics of Taxation*, MIT Press (2003)

J. Gruber, *Public Finance and Public Policy*, Worth Publishers (any edition).

COURSE READINGS

0. Introductory Lecture / Methods in Empirical PF (1 LECTURE)

1. Tax Incidence: Theory and Empirical Applications (2 LECTURES)

Theory:
L. Kotlikoff and L. Summers, "Tax Incidence", in A. Auerbach and M. Feldstein, Volume 2, 1043-1092. Sections 0, 1, 2 (pp. 1050-1060) and 4.4 (pp. 1082-1086).

L. Summers, "The Asset Price Approach to the Analysis of Capital Income Taxation", *Proceedings of the National Tax Association*, 1983, 112-120.

Empirical applications
J. Doyle and K. Samphantharak "$2.00 Gas! Studying the Effects of a Gas Tax Moratorium." ***Journal of Public Economics*** **April 2008**

L. Linden and J. Rockoff "There Goes the Neighborhood? Estimates of the Impact of Crime Risk on Property Values from Megan's Laws," *American Economic Review* 98(3): 1103-1127, 2008.

J. Hastings and E. Washington "The First of the Month Effect: New Evidence for the Optimal Timing of Food Stamp Benefits" *AEJ Policy*, May 2010.

Evans, Ringel and Stech 1999 "Tobacco Taxes and Public Policies to Discourage Smoking," *Tax Policy and the Economy*

J. Rothstein, "Is the EITC as Good as an NIT? Conditional Cash Transfers and Tax Incidence", *AEJ Policy*, Feb 2010.

Mandated benefits, theory and empirics:
L. Summers, "Some Simple Economics of Mandated Benefits", American Economic Review, 79(2), May 1989, 177-183.

J. Gruber, "The Incidence of Mandated Maternity Benefits", American Economic Review, 84(3), June 1994, 622-641.

J. Kolstad and A. Kowalski "Mandate-Based Health Reform and the Labor Market: Evidence from the Massachusetts Reform," mimeo.

D. Acemoglu and J. Angrist, "Consequences of Employment Protection? The Case of the Americans with Disabilities Act,'' *Journal of Political Economy* 109(5) 915-957, 2001.

2. Optimal Commodity Taxation (1 LECTURE)

Theory:
Alan Auerbach and James Hines, "Taxation and Economic Efficiency," *Handbook of Public Economics*, vol. 3, Chapter 21; Sections 1-3.

L. Goulder and R. Williams. "The Substantial Bias from Ignoring General Equilibrium Effects in Estimating Excess Burden, and a Practical Solution," *Journal of Political Economy*, 2003, 111:898-927.

M. Feldstein, "Tax Avoidance and the Deadweight Loss of the Income Tax," *Review of Economics and Statistics*, 81(4), November 1999, 674-680.

R. Chetty, "Is the Taxable Income Elasticity Sufficient to Calculate Deadweight Loss? The Implications of Evasion and Avoidance." American Economic Journal – Economic Policy.

P. Diamond and J. Mirrlees, "Optimal Taxation and Public Production", *American Economic Review*, 61, 1971, 8-27 and 261-278.

Empirical application:
J. Marion and E. Muehlegger. "Measuring Illegal Activity and the Effects of Regulatory Innovation: Tax Evasion and the Dyeing of Untaxed Diesel," *Journal of Political Economy* 116:4, p.633-666, August 2008.

3. Externalities (1 LECTURE)

Theory:
Alan Auerbach and James Hines, "Taxation and Economic Efficiency," Handbook of Public Economics, vol. 3, Chapter 21; Sections 5 and 6.

Empirical papers on externalities:
K. Chay and M. Greenstone, "Does Air Quality Matter? Evidence from the Housing Market," Journal of Political Economy, 2005, vol. 113, no. 2.

J. Graff Ziven and M. Neidell, "The Impact of Pollution on Worker Productivity", *AER* 2012.

Gilbert E. Metcalf, .Market-based Policy Options to Control U.S. Greenhouse Gas Emissions. Journal of Economic Perspectives 23(2), Spring 2009, 5-27.

Lans Bovenberg and Lawrence Goulder, .Environmental Taxation,. *Handbook of Public Economics*, vol. 3, Chapter 23.

4. Theory of Income Taxation (1 LECTURE)

E. Saez, "Optimal Income Transfer Programs: Intensive Versus Extensive Labor Supply Responses", ***QJE*** **117 (2002), 1039-1073.**

P. Diamond and E. Saez, The Case for a Progressive Tax: From Basic Research to Policy Recommendation" ***JEP*****, 2011.**

Brewer, Saez and Shephard, "Means-testing and tax rates on earnings." Mirrlees Review Volume.

Emmanuel Saez, "Using Elasticities to Derive Optimal Income Tax Rates", *Review of Economic Studies*, January 2001, 205-229.

Alan Auerbach and James Hines, "Taxation and Economic Efficiency," *Handbook of Public Economics*, vol. 3, Chapter 21; Section 4.

J. Mirrlees, "An Exploration in the Theory of Optimal Income Taxation", *Review of Economic Studies*, 38, 1971, 175-208.

Henrik Kleven, Claus Kreiner, and Emmanuel Saez, "The Optimal Income Taxation of Couples," NBER Working Paper 12685, November 2006.

5. Empirical Taxes and Labor Supply (2 LECTURES)

E. Saez "Do Taxpayers Bunch at Kink Points?" ***AEJ Policy*****, August 2010.**

R. Chetty J. Friedman, T. Olsen and L. Pistaferri "Adjustment Costs, Firm Responses, and Micro vs. Macro Labor Supply Elasticities: Evidence from Danish Tax Records", ***QJE*** **126(2): 749-804, 2011**

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

G. Imbens, D. Rubin, and B. Sacerdote (2001) "The Causal Effect of Income on Labor Supply: Evidence From the Lottery Winner Survey." ***AER*****, Vol. 91, No. 4, September 2001.**

O. Ashenfelter and M. Plant. (1990) "Non-Parametric Estimates of the Labor Supply Effects of Negative Income Tax Programs," Journal of Labor Economics, 8.1 (January), S396-S415.

L. Friedberg "The Labor Supply Effects of the Social Security Earnings Test," Review of Economics and Statistics 82(1), February 2000, pages 48-63.

T. MaCurdy, H. Paarsch, and D. Green, "Assessing Empirical Approaches for Analyzing Taxes and Labor Supply," *Journal of Human Resources,* Summer 1990.

A. Auerbach and J. Slemrod, The Economic Effects of the Tax Reform Act of 1986, *Journal of Economic Literature* 35 (June 1997), 589-632.

R. Blundell, A. . Duncan and C. Meghir, Estimating Labor Supply Responses Using Tax Reforms, *Econometrica* 66 (July 1998), 827-862.

J. Hausman "Taxes and Labor Supply", in A. Auerbach and M. Feldstein, eds, *Handbook of Public Finance*, Vol I, North Holland 1987.

Francine D. Blau, Lawrence M. Kahn "Changes in the Labor Supply Behavior of Married Women: 1980-2000", NBER Working Paper No. 11230, March 2005

R. Blundell and T. Macurdy. (1999) "Labor supply: a review of alternative approaches," in the Handbook of Labor Economics, Vol. 3A, O. Ashenfelter and D. Card, eds. Amsterdam:

<u>6. Taxable Income Elasticities</u> (1 LECTURE)   [SKIP??]

Empirical papers:
M. Feldstein "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act," *Journal of Political Economy* June 1995.

Saez, E., J. Slemrod, and S. Giertz (2011) "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review", Journal of Economic Literature.

Ito, Koichiro. "Do Consumers Respond to Marginal or Average Price? Evidence from Nonlinear Electricity Pricing", unpublished UC Berkeley PhD thesis.

Goolsbee, Austan (2000) "What Happens When You Tax the Rich? Evidence From Executive Compensation," *Journal of Political Economy*, 108(2), April 2000, pp. 352-378.

Emmanuel Saez "Reported Income and Marginal Tax rates, 1960-2000: Evidence and Policy Implications", in J. Poterba, ed, Tax Policy and the Economy, Volume 18, Cambridge MA 2004.

J. Slemrod, "Methodological Issues in Measuring and Interpreting Taxable Income Elasticities," National Tax Journal 51 (1998), 773-788.

A. Goolsbee (1999),, "Evidence on the High-Income Laffer Curve from Six Decades of Tax Reform" *Brookings Papers on Economic Activity*, Vol. 1999(2), 1-64.

M. Feldstein "Tax Avoidance and the Deadweight Loss of the Income Tax," RESTAT 1999.

Gruber and Saez "The Elasticity Of Taxable Income: Evidence And Implications," Journal of Public Economics, 2002, v84(1,Apr), 1-32.

T. Piketty and E. Saez, "Income Inequality in the United States, 1913-1998", Quarterly Journal of Economics, 116, 2003, 1-39.

<u>7. Tax Salience</u> (1 LECTURE)

R. Chetty, A. Looney, and K. Kroft "Salience and Taxation: Theory and Evidence" *AER* 9(4): 1145-1177, Sep. 2009.

A. Finkelstein (2009) "EZ-Tax: Tax Salience and Tax Rates." *QJE* 124(3): 969-1010.

J. Goldin and T. Homonoff "Smoke Gets in Your Eyes: Cigarette Tax Salience and Regressivity," forthcoming AEJ Policy.

<u>8. Taxes, Transfers and the Low Income Population</u> (3 LECTURES)

N. Eissa and J. Liebman, "Labor Supply Response to the Earned Income Tax Credit", *QJE* 111 (1996).

B. Meyer and D. Rosenbaum, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers", *QJE* 116 (3) (August 2001), 1063-1114.

R. Chetty, J. Friedman and E. Saez "Using Differences in Knowledge Across Neighborhoods to Uncover the Impacts of the EITC on Earnings", mimeo.

G. Dahl and L. Lochner, "The Impact of Family Income on Child Achievement: Evidence from Changes in the Earned Income Tax Credit", *AER* 2012.

H. Hoynes, D. Miller and D. Simon, "Income, the Earned Income Tax Credit, and Infant Health," mimeo

R. Moffitt "An Economic Model of Welfare Stigma", *AER*, December 1983.

M. Bitler, J. Gelbach, and H. Hoynes, "What Mean Impacts Miss: Distributional Impacts of Welfare Reform Programs," *American Economic Review*, 2006.

R. Chetty and E. Saez (2009) "Teaching the Tax Code: Earnings Responses to an Experiment with EITC Recipients", mimeo.

B. Meyer and J. Sullivan. "The Effects of Welfare and Tax Reform: The Material Well-Being of Single Mothers in the 1980s and 1990s," Journal of Public Economics, 88(7-8): 1387-1420.

J. Gruber, "Cash Welfare as a Consumption Smoothing Device for Single Mothers," Journal of Public Economics 75 (February, 2000), 157-182.

J. Rothstein, "The Mid-1990s EITC Expansion: Aggregate Labor Supply Effects and Economic Incidence" American Economic Journal: Economic Policy, forthcoming.

N. Eissa and H Hoynes "Behavioral Responses to Taxes: Lessons from the EITC and Labor Supply," *Tax Policy and the Economy* Volume 20, pp. 74-110. MIT Press.

R. Blank, "Evaluating Welfare Reform in the United States," *Journal of Economic Literature*, December 2002.

J. Karl Scholz, "The Earned Income Tax Credit: Participation, Compliance and Antipoverty Effectiveness, *National Tax Journal*, March 1994.

J. Rothstein, "The Mid-1990s EITC Expansion: Aggregate Labor Supply Effects and Economic Incidence" Princeton University Working Paper, August 2005.

B. Meyer and D. Rosenbaum AMaking Single Mothers Work: Recent Tax and Welfare Policy and its Effects.@ *National Tax Journal*, 53, 1027-1062, 2000.

W. Kopczuk, and C. Pop-Eleches (2005), "Electronic Filing, Tax Preparers, and Participation in the Earned Income Tax Credit", NBER Working Paper, forthcoming Journal of Public Economics.

N. Eissa and H. Hoynes, "The Earned Income Tax Credit and the Labor Supply of Married Couples", Journal of Public Economics, Volume 88, Issues 9-10, Pages 1931-1958, August 2004.

D Neumark et W. Wascher, "Using the EITC to Help Poor Families: New Evidence and a Comparison with the Minimum Wage", NBER Working Paper no. 7599 (2000)

J. Grogger "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income Among Female-Headed Families", Review of Economic and Statistics, 2004.

J. Hotz and K. Scholz, "The Earned Income Tax Credit", in Means-Tested Transfer Programs in the United States, R. Moffitt (ed.), The University of Chicago Press and NBER, 2003, 141-197

H. Hoynes, "Welfare Transfers in Two-Parent Families: Labor Supply and Welfare Participation Under the AFDC-UP Program", *Econometrica*, March 1996.

H. Hoynes "Does Welfare Play Any Role in Female Headship Decisions?", *Journal of Public Economics* 65, 1997.

Moffitt, Robert. "Incentive Effects of the U.S. Welfare System: A Review." Journal of Economic Literature 30 (March 1992): 1-61.

9. <u>In-kind Public Assistance Programs</u> (2 LECTURES)

H. Hoynes and D. Schanzenbach, "Consumption Reponses to In-Kind Transfers: Evidence from the Introduction of the Food Stamp Program," *AEJ Applied*, 2009, 1(4):109-139.

D. Almond, H. Hoynes and D. Schanzenbach, "Inside the War on Poverty: The Impact of Food Stamps on Birth Outcomes", RESTAT May 2011.

J. Ludwig and D. Miller, "Does Head Start Improve Children's Outcomes? Evidence from a Regression Discontinuity Design," *QJE*, 2007.

B. Jacob and J. Ludwig, "The Effects of Housing Assistance on Labor Supply: Evidence from a Voucher Lottery," *AER*, 102(1): 272–304, 2012.

Jesse Shapiro "Is there a daily discount rate? Evidence from the food stamp nutrition cycle" JPubE, Volume 89, Issues 2-3, February 2005, Pages 303-325.

Hilary Hoynes, Marianne Page and Ann Huff Stevens, "Can Targeted Transfers Improve Birth Outcomes? Evidence from the Introduction of the WIC Program", JPUBE 2011.

<u>10. Long Term Impacts of Early Life Interventions</u> (1 LECTURE)

M. Anderson. "Multiple Inference and Gender Differences in the Effects of Early Intervention: A Reevaluation of the Abecedarian, Perry Preschool," *JASA*, 2008 103(484).

H. Hoynes, D. Schanzenbach and D. Almond, "Long Run Impacts of Childhood Access to the Safety Net," Mimeo.

D. Deming, "Early Childhood Intervention and Life-Cycle Skill Development: Evidence from Head Start," AEJ Applied 2009.

S, Dynarski, J. Hyman, and D. Schanzenbach (2011). "Experimental Evidence on the Effect of Childhood Investments on Postsecondary Attainment and Degree Completion" NBER working paper 17533.

<u>11. Disability Income</u> (1 LECTURE)   [SKIP??]

D. Autor and M. Duggan, The Rise in Disability Rolls and the Decline in Unemployment, *QJE*, 2003.

D. Black, K. Daniel and S. Sanders, The Impact of Economic Conditions on Participation in Disability Programs: Evidence from the Coal Boom and Bust, *AER*, 92, 2002, 27-50.

<u>12. Public Health Care</u> (3 LECTURES)

D. Card. C. Dobkin and N. Maestas "Does Medicare Save Lives?", QJE 2009.

D. Card. C. Dobkin and N. Maestas (2008), "The Impact of Nearly Universal Insurance Coverage on Health Care Utilization and Health: Evidence from Medicare," AER, Vol. 98, Issue. 5, pp. 2242–58,

D. Cutler and J. Gruber, "Does Public Insurance Crowd Out Private Insurance?" *QJE*, May 1996.

J. Currie and J. Gruber, "Saving Babies: The Efficacy and Cost of Recent Changes in the Medicaid Eligibility of Pregnant Women," *JPE* 1996.

A. Aron-Dine, L. Einav, and A. Finkelstein "The RAND Health Insurance Experiment, Three Decades Later," Forthcoming JEP.

A. Finkelstein et al "The Oregon Health Insurance Experiment: Evidence from the first year." QJE 2012 127(3): 1057-1106.

M. Anderson, C. Dobkin, and T. Gross "The Effect of Health Insurance Coverage on the Use of Medical Services", Mimeo.

J. Currie and J. Gruber "Health Insurance Eligibility, Utilization of Medical Care, and Child Health" QJE, 1996.

A. Finkelstein and R. McKnight, "What Did Medicare Do (And Was It Worth It)?" JPUBE

13. Place Based Policies (1 LECTURE)

J. Kling, J. Liebman and L. Katz,. Experimental Analysis of Neighborhood Effects, *Econometrica*, 75:1 (January 2007), 83-119

P. Kline, M. Busso, and J. Gregory, "Assessing the Incidence and Efficiency of a Prominent Place Based Policy", working paper.

J. Ludwig et al "The Long Term Impacts of Moving to Opportunity" 2012, mimeo.

Lawrence F. Katz, Jeffrey R. Kling and Jeffrey B. Liebman "Moving to Opportunity in Boston: Early Results of a Randomized Mobility Experiment", Quarterly Journal of Economics 116 (May 2001), 607-54.

P. Kline and E. Moretti, "Place Based Policies and Unemployment." Mimeo.