

# PUBLIC ECONOMICS I

Spring 2017

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<b>Instructor:</b>	Danila Pankov	<b>Time:</b>	F 14:00 – 17:00
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**Course Page** is [here](#)

**Description:** In this course, I cover current empirical research related to the optimal design of tax and social insurance policies. There are two main questions related to any tax or SI policy: what is the economic burden associated with it? who bears this burden? I show how the recent empirical literature answers these questions for the taxes on goods, services, property, individuals, corporations and for the unemployment/disability insurance.

**Objectives:** I design this course for a graduate student interested in learning more about ongoing empirical research on the optimal design of tax and social insurance policies.

**Prerequisites:** An undergraduate-level understanding of microeconomic theory and econometrics is assumed.

## **Tentative Course Outline:**

- Introduction
- Tax Incidence
- Efficiency Cost of Taxation
- Corporate Taxation
- Income Taxation and Labor Supply
- Social Insurance

**Grading Policy:** Homework (60%), Research Project (40%).

## **Important Dates:**

Homework ..... Every week  
Project Deadline ..... 5th week of the course

## **Class Policy:**

- Regular attendance is voluntary but useful because class material determines the home assignments.

**Academic Honesty:** Lack of knowledge of the academic honesty policy is not a reasonable explanation for a violation.

# Reading List

## Introduction [1 class]

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Juan Carlos Suárez Serrato and Philippe Wingender. Estimating local fiscal multipliers. Technical report, National Bureau of Economic Research, 2016.

Raj Chetty, John N Friedman, and Jonah E Rockoff. The long-term impacts of teachers: Teacher value-added and student outcomes in adulthood. Technical report, National Bureau of Economic Research, 2011.

Raj Chetty, John N Friedman, and Emmanuel Saez. Using differences in knowledge across neighborhoods to uncover the impacts of the eitc on earnings. *The American Economic Review*, 103(7):2683–2721, 2013.

TA Homonoff. Can small incentives have large effects. *The impact of taxes versus bonuses on disposable bag use. Job Market Paper*, 2012.

## Tax Incidence and Efficiency [2 classes]

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### *Tax Incidence*

### Partial Equilibrium Incidence

#### Theory

Peter Ladner, Adam Looney, and Kory Kroft. Salience and taxation: Theory and evidence. *The American economic review*, 99(4):1145–1177, 2009.

Laurence J Kotlikoff and Lawrence H Summers. Tax incidence. *Handbook of public economics*, 2:1043–1092, 1987.

E Glen Weyl and Michal Fabinger. Pass-through as an economic tool. *SSRN eLibrary*, 2009.

Stephen F Hamilton. Excise taxes with multiproduct transactions. *The American Economic Review*, 99(1):458–471, 2009.

#### Empirical Applications

##### **Gas Market:**

Jarkko Harju, Tuomas Kosonen, and Marita Laukkanen. Tax incidence in the fuel market: Evidence from station-level data. 2016.

Joseph J Doyle and Krislert Samphantharak. 2.00 dollar gas! studying the effects of a gas tax moratorium. *Journal of Public Economics*, 92(3):869–884, 2008.

Wojciech Kopczuk, Justin Marion, Erich Muehlegger, Joel Slemrod, et al. Does tax-collection invariance hold? evasion and the pass-through of state diesel taxes. *American Economic Journal: Economic Policy*, 8(2):251–86, 2016.

**Retailers:**

Justine Hastings and Ebonya Washington. The first of the month effect: consumer behavior and store responses. *American Economic Journal: Economic Policy*, 2(2):142–162, 2010.

Nicoletta Berardi, Patrick Sevestre, Marine Tepaut, and Alexandre Vigneron. The impact of a soda tax on prices: evidence from french micro data. *Applied Economics*, 48(41):3976–3994, 2016.

U Michael Bergman and Niels Lynggård Hansen. Excise tax pass-through and menu costs: The danish evidence. 2016.

**Wages/Employment:**

Jesse Rothstein. Is the eitc as good as a nit? conditional cash transfers and tax incidence. *American Economic Journal: Economic Policy*, 2(1):177–208, 2010.

**Housing:**

Wojciech Kopczuk and David J Munroe. Mansion tax: the effect of transfer taxes on the residential real estate market. Technical report, National Bureau of Economic Research, 2014.

**Cigarettes:**

Lesley Chiou and Erich Muehlegger. Consumer response to cigarette excise tax changes. 2014.

**Restaurants:**

Youssef Benzarti and Dorian Carloni. Who really benefits from consumption tax cuts? evidence from a large vat reform in france. Technical report, National Bureau of Economic Research, 2017.

**Capitalization and Asset Price Approach**

David M Cutler. Tax reform and the stock market: An asset price approach. *The American Economic Review*, 78(5):1107–1117, 1988.

David Tracey and Jonah E Rockoff. Estimates of the impact of crime risk on property values from Megan's laws. *The American Economic Review*, 98(3):1103–1127, 2008.

**Mandated Benefits**

Daron Acemoglu and Joshua D Angrist. Consequences of employment protection? the case of the Americans with Disabilities Act. *Journal of Political Economy*, 109(5):915–957, 2001.

Don Fullerton and Erich Muehlegger. Who bears the economic costs of environmental regulations? Technical report, National Bureau of Economic Research, 2017.

***Excess Burden***Theory

Alan J Auerbach. The theory of excess burden and optimal taxation. *Handbook of public economics*, 1:61–127, 1985.

Raj Chetty. Sufficient statistics for welfare analysis: A bridge between structural and reduced-form methods. *Annu. Rev. Econ.*, 1(1):451–488, 2009.

Lawrence H Goulder and Roberton C Williams III. The substantial bias from ignoring general equilibrium effects in estimating excess burden, and a practical solution. *Journal of political Economy*, 111(4):898–927, 2003.

## Empirical Applications

Yuriy Gorodnichenko, Jorge Martinez-Vazquez, and Klara Sabirianova Peter. Myth and reality of flat tax reform: Micro estimates of tax evasion response and welfare effects in russia. *Journal of Political economy*, 117(3):504–554, 2009.

Raj Chetty. Is the taxable income elasticity sufficient to calculate deadweight loss? the implications of evasion and avoidance. *American Economic Journal: Economic Policy*, 1(2):31–52, 2009.

James M Poterba. Taxation and housing: Old questions, new answers. Technical report, National Bureau of Economic Research, 1992.

Justin Marion and Erich Muehlegger. Measuring illegal activity and the effects of regulatory innovation: Tax evasion and the dyeing of untaxed diesel. *Journal of Political Economy*, 116(4):633–666, 2008.

## Corporate Taxation [1 class]

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### ***Payout and Corporate Profits Taxes***

#### Theory

Raj Chetty and Emmanuel Saez. Dividend and corporate taxation in an agency model of the firm. *American Economic Journal: Economic Policy*, 2(3):1–31, 2010.

#### Empirical Applications:

Raj Chetty and Emmanuel Saez. Dividend taxes and corporate behavior: Evidence from the 2003 dividend tax cut. *The Quarterly Journal of Economics*, 120(3):791–833, 2005.

Pablo Fajnzylber, William F Maloney, and Gabriel V Montes Rojas. Does formality improve micro-firm performance? quasi-experimental evidence from the brazilian simples program. 2009.

Annette Alstadsæter, Wojciech Kopczuk, and Kjetil Telle. Are closely held firms tax shelters? *Tax Policy and the Economy*, 28(1):1–32, 2014.

### ***Tax Incentives for Investment***

Alan J Auerbach, Michael P Devereux, and Helen Simpson. Taxing corporate income. Technical report, National Bureau of Economic Research, 2008.

David Tracey and Matthew D Shapiro. Temporary investment tax incentives: Theory with evidence from bonus depreciation. *The American Economic Review*, 98(3):737–768, 2008.

Martin Jacob, Roni Michaely, and Maximilian A Müller. The effect of consumption taxes on corporate investment. 2016.

## ***Taxation and Capital Structure***

Alan J Auerbach. Taxation, corporate financial policy and the cost of capital, 1982.

## ***Organizational Form and International Taxation***

Alan J Auerbach. *A Modern Corporate Tax*. Center for American Progress, 2010.

Dhammika Dharmapala, C Fritz Foley, and Kristin J Forbes. Watch what i do, not what i say: The unintended consequences of the homeland investment act. *The Journal of Finance*, 66(3):753–787, 2011.

# **Income Taxation and Labor Supply [1 class]**

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## ***Estimating Labor Supply Elasticities***

Richard Blundell, Alan Duncan, and Costas Meghir. Estimating labor supply responses using tax reforms. *Econometrica*, pages 827–861, 1998.

Nada Eissa. Taxation and labor supply of married women: the tax reform act of 1986 as a natural experiment. Technical report, National Bureau of Economic Research, 1995.

Jerry A Hausman. Taxes and labor supply. *Handbook of public economics*, 1:213–263, 1985.

Thomas E MaCurdy. An empirical model of labor supply in a life-cycle setting. *Journal of political Economy*, 89(6):1059–1085, 1981.

## ***Estimating Labor Supply Elasticities***

Martin Feldstein. The effect of marginal tax rates on taxable income: a panel study of the 1986 tax reform act. *Journal of Political Economy*, 103(3):551–572, 1995.

Austan Goolsbee. What happens when you tax the rich? evidence from executive compensation. *Journal of Political Economy*, 108(2):352–378, 2000.

Emmanuel Saez. Do taxpayers bunch at kink points? *American Economic Journal: Economic Policy*, 2(3):180–212, 2010.

Emmanuel Saez, Joel Slemrod, and Seth H Giertz. The elasticity of taxable income with respect to marginal tax rates: A critical review. *Journal of economic literature*, 50(1):3–50, 2012.

## ***Structural Elasticities and Macroeconomic Evidence***

Raj Chetty. Bounds on elasticities with optimization frictions: A reconciliation of micro and macro labor supply elasticities. *unpublished, Harvard University, October*, 2009.

## Social Insurance [1 class]

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### *Market Failures and Motivations for Government Intervention*

Raj Chetty and Amy Finkelstein. Social insurance: Connecting theory to data. Technical report, National Bureau of Economic Research, 2012.

Liran Einav and Amy Finkelstein. Selection in insurance markets: Theory and empirics in pictures. *The Journal of Economic Perspectives*, 25(1):115–138, 2011.

### *Unemployment Insurance*

#### Worker Behavior

##### Theory

Raj Chetty. A general formula for the optimal level of social insurance. *Journal of Public Economics*, 90(10):1879–1901, 2006.

Raj Chetty. Moral hazard versus liquidity and optimal unemployment insurance. *Journal of political Economy*, 116(2):173–234, 2008.

Martin Feldstein. Temporary layoffs in the theory of unemployment. *Journal of political economy*, 84(5):937–957, 1976.

Robert Shimer and Ivan Werning. Reservation wages and unemployment insurance. *The Quarterly Journal of Economics*, 122(3):1145–1185, 2007.

Camille Landais. Assessing the welfare effects of unemployment benefits using the regression kink design. *American Economic Journal: Economic Policy*, 7(4):243–278, 2015.

##### Empirical Applications

David Card, Raj Chetty, and Andrea Weber. Cash-on-hand and competing models of intertemporal behavior: New evidence from the labor market. *The Quarterly journal of economics*, 122(4):1511–1560, 2007.

Jonathan Gruber. The consumption smoothing benefits of unemployment insurance. Technical report, National Bureau of Economic Research, 1994.

Bruce D Meyer. Unemployment insurance and unemployment spells, 1988.

#### Firm Behavior

Martin Feldstein. The effect of unemployment insurance on temporary layoff unemployment. *The American Economic Review*, 68(5):834–846, 1978.

### *Workers Compensation*

Bruce D Meyer, W Kip Viscusi, and David L Durbin. Workers' compensation and injury duration: evidence from a natural experiment. *The American economic review*, pages 322–340, 1995.

### *Disability Insurance*

Nicole Maestas, Kathleen J Mullen, and Alexander Strand. Does disability insurance receipt discourage work? using examiner assignment to estimate causal effects of ssdi receipt. *The American Economic Review*, 103(5):1797–1829, 2013.