

Spring 2010

You may use the notes you have brought with you in answering these examination questions. However, you may not use any other materials (articles, books, etc.) or the internet during the examination. You are not to discuss the questions with your colleagues as you prepare your answers. Your answers are to be turned in by 5:00 PM.

You should have sufficient time for the examination. Before you begin to write, it would be helpful for you to spend some time on reflection and on organizing your thoughts. Quantity is not a substitute for quality in answering these questions. Your score will depend on the quality of your answers, and high quality answers will include citations to the literature.

Answer one of the following two questions:

- a. There are three types of general sales tax, each currently being levied in one or more countries around the world at the national or subnational level. Identify each of the three types and carefully describe the differences and similarities among them. Take care to specify what structural features you would look for in the tax law to allow you to determine what the tax is (statutory labels are not always helpful). Discuss the economic and fiscal effects of each, particularly those found in the published empirical literature. Identify a couple of unresolved questions about their performance that might be susceptible to empirical research and describe how you might work to examine them.
- b. Are income taxes destined to be complicated? What data on the degree of complication can you provide for the US individual income tax? Explain in some detail the sources of income tax complexity, using illustrations from international experience. What are the estimates of deadweight loss produced by the US individual income tax? How can those losses be reduced by changes in the tax code? Finally, explain the barriers to income tax simplification.

Answer one of the following two questions:

- c. There has been growing interest in second best pollution instruments in public finance. Provide some examples of such instruments, and discuss how alternative tax and subsidy instruments can be used in combination to achieve the “Pigouvian result.” Very good answers will indicate what “the Pigouvian result” is; will be complemented by cites to the literature;

and will describe how cases of these instruments have been judged by researchers.

- d. Compare the Taylor Series Approximation Approach to the Hausman Exact Approach for measuring excess burden. To do this, you do not need to derive both models from scratch, but do explain what the relevant differences are that distinguish these models from each other. You should also demonstrate how regression results can be used to calculate excess burden with each approach. What are the strengths and weaknesses of these approaches? Explain by means of graphical analysis if necessary.

Answer one of the following two questions:

- e. Cap and trade seems to be the rave these days when it comes to addressing negative externalities. Compare, in detail, the cap and trade approach versus taxation as means to deal with negative externalities.
- f. In 1978 California implemented Proposition 13 which arguably began (or at least accelerated) the modern property tax limitation movement. What lessons have been learned from the implementation of Proposition 13 and other similar property tax limitations over the years? To what extent has the property tax limitation movement contributed to the current fiscal environment state and local governments find themselves in? Be specific and ensure your answer includes the economic effects along with the policy and political effects.

Answer one of the following two questions:

- g. Budgeting for stability in both revenue and expenditure represents an important goal for sub-national governments for many reasons.
 - 1) Justify stability as a theoretical and practical goal.
 - 2) Sub-national governments are often facing multiple and conflicting fiscal objectives (i.e., adequacy, equity, efficiency, etc.). How should trade-offs between stability and these other objectives be made?
 - 3) Explore the possible approaches that help to achieve budget stability.
 - 4) Discuss the pros and cons associated with each approach you identified in part (3).

- h. Various academic disciplines have contributed to the evolution of budget theory. Assess the current "state" of budget theory and review the contributions of economists, political scientists, organizational and management theorists, and others to the understanding of public budget decision-making. Also, assess the limitations of the major budget theories that have been offered by the various budget theorists.

Answer one of the following two questions:

- i. Over several decades there has been much discussion in the public finance literature over the role and impact of the tax exemption of municipal debt. One major aspect of the debate focuses on the efficiency of the federal subsidy. Craft an essay that carefully lays out the contours of the theoretical and empirical aspects of this debate.

Use your analysis of the literature to discuss the likely pros and cons, expected costs and benefits, of the Build America Bond (BAB) program established by the American Recovery and Reinvestment Act of 2009 (ARRA).

- j. Tremors from the financial earthquakes of 2007 and 2008 are still being felt in the municipal securities market. Analyze the origins and causes of the global financial crisis in general and particularly from the vantage point of the municipal securities market.

Focus your analysis on the theory and practice of how financial markets operate and function; the design and purpose of fixed income securities (including derivative securities); and the role of financial institutions, financial intermediaries and government regulators.