

Public Finance Doctoral Examination

Ground Rules:

- No notes, articles, books, internet, or any other supporting materials are permitted during the examination.
- You should not identify yourself in the exam, so as to assist in making this a blind grading process.
- 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.

[Comprehensive] Answer one of the following two questions:

1. Automatic federal budget cuts, popularly known as “the sequester,” came into effect in 2013. This was the result of a law passed by Congress in 2011 that stated that if a plan to reduce the deficit by \$4 trillion was not agreed upon, then the sequester would enact automatic across-the-board budget cuts. Was the sequester rule good policy? Evaluate this question from as many perspectives as possible (e.g. political theory, economic theory, budgeting theory, fiscal sustainability, public administration, etc).
2. Academics and policymakers have suggested that tax reform is a credible way of reducing the federal budget deficit. Explain how tax reform could be used as a means to reduce the federal deficit. How could such a deficit-reducing tax reform be constructed? How can publicly available tabulations be used to perform a rough calculation of the revenue impact of such a tax reform? Describe some likely effects of such a tax reform on individual and/or firm behavior, using appropriate cites to the literature. Finally, describe the likely barriers to such a tax reform.

[Taxation] Answer one of the following two questions:

3. Many critics of the contemporary tax code have taken issue with some firms “paying zero corporate income taxes” on very large profits. Presumably, this is the result of various deductions, exemptions, and other sophisticated avoidance strategies. Assuming this critique is true, do any of the typical tax economist concerns of excess burden arising from

tax distortions matter? As you answer, you will want to be clear as to what you think “paying zero corporate income taxes” might mean (you can present multiple possibilities, if you like, just be clear on the alternative assumptions). You should also answer in such a way that it is clear that you understand tax distortions and excess burden.

4. State and local governments have been searching for new revenue as they come out of the Great Recession, and tax base broadening has been one approach frequently discussed. In particular, several governments have been considering an end to real property and retail sales tax (for purchases and sales) exemptions for non-profit organizations as one tax base broadening approach. What would be the incidence of this suggested form of tax base broadening? Discuss the existing theory and literature on these incidence effects, and be certain to clearly identify when you are discussing “statutory incidence” versus “economic incidence.” Because the empirical literature is somewhat limited, also outline how you would conduct research projects to identify the incidence. You may need to develop different approaches for the two taxes.

[Budgeting] Answer one of the following two questions:

5. Many observers of the federal budget have described the process as “broken.” Discuss. Your answer should include illustrations and appropriate discussion from the academic literature.
6. Although it was published in 1940, an article frequently referenced in the public administration literature is a paper by V. O. Key, titled “The Lack of a Budgetary Theory.” What problem was Key discussing? Would his article make any sense if submitted for publication today? What does the literature tell us about the problem? How does it matter for work in the practice of government finance?

[Debt] Answer one of the following two questions:

7. Over the past thirty years there has been much discussion in the public finance literature over the role and impact of the tax exemption of municipal debt. Two of the major aspects of the debate focus on the efficiency of the federal subsidy, and the role of fiscal federalism in the United States. Write an essay that lays out the contours of the theoretical issues and empirical facts of the debate. In your analysis, discuss the pros and cons, costs and benefits, of the municipal securities market remaining a predominately tax-exempt market. Take care to highlight several of the important milestones in the history of municipal securities relating to

taxes and tax-exemption, with an emphasis on changes that occurred during and since the Great Recession and Financial Crisis.

8. Trading in the municipal securities secondary market is said to be “opaque.” Is this characterization accurate? Use the extant literature to write a persuasive essay that proves your case. Include in your analysis a thorough discussion of the important characteristics of trading (i.e., liquidity, price discovery, transparency, transaction size, transaction costs, etc.) in financial markets in general and the municipal securities market in particular. You may compare and contrast the municipal market with other financial markets.