

Public Finance Doctoral Examination

Ground Rules:

- Answer one (1) question from each of the three sections, plus one (1) more question from any section of your choosing. This means you will have answered four (4) questions in total.
- You are permitted a bibliography or list of references to bring with you into the exam. Otherwise, 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 double-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.

Taxation:

1. A major feature of the recently passed Tax Cuts and Jobs Act of 2017 is a cap on the itemized deduction for state and local income, sales, and property taxes (SALT). (a) What Would Haig-Simon Say? (b) Evaluate this policy thoroughly under relevant items of standard tax policy criteria. (c) Develop three research questions that could be pursued in light of this policy change. In answering part (c), you should provide context to relevant literature and provide as much theoretical framework as possible so to illuminate relevant hypotheses and provides expected effects. The more unique the three research questions, the better (i.e. three minor twists that largely rely on the same theory/literature is less impressive than three questions that each require new theory and literature).
2. The U.S. Supreme Court recently ruled in favor of the state of South Dakota in the Wayfair case on the legality of South Dakota forcing out-of-state online retailers to collect sales taxes on purchases from South Dakota residents. The court also ruled, in a separate case, that Colorado's reporting requirement imposed on out-of-state sellers is constitutional. In other words, it is legal for Colorado to ask out-of-state sellers to report to Colorado's department of revenue all

purchases made by Colorado residents. (a) Which of these two models should the other states that are struggling with collecting tax revenue on e-commerce adopt and why? (b) Speculate on what you think will happen to sales and use tax policy in the American states as a consequence of these policy changes (e.g. Will states raise or lower rates? What about their local governments? Will states expand or contract tax bases? Will states alter other instruments? Etc.). Root your speculations in relevant theory and literature.

Budgeting:

3. Incrementalism as a framework for understanding observed budgetary behavior has been subject to repeated challenge by the “punctuated equilibrium” perspective in the past thirty years. Summarize the incremental approach and comment on the major literature that embraces the incremental view. Provide a detailed discussion of the challenge posed by the punctuated equilibrium perspective.
4. There is some strong opinion in the international financial markets that the U.S. national debt has become “too large,” by some measures. Further, the opinion goes, at some critical level of debt, so-called “bond vigilantes” – international financiers – will punish the U.S. Government for its lax debt policies. What do you think about this proposition? Do “bond vigilantes” even exist? How would they effectively “punish” the U.S. Government? In a directly connected matter, the concentrated ownership of U.S. national debt on the part of the governments of China, Japan and the United Kingdom is regarded by some as a threat to U.S. national security. Is this an actual “threat”? In principle, what threshold of ownership of U.S. national debt would constitute such a threat? Why?

Debt:

5. On December 22, 2017 President Trump signed the 2017 Tax Cuts & Jobs Act (“The Act”). The Act has several provisions that will have a significant impact on the municipal securities market. In particular, there are several federal income tax provisions that will effect State and Local Taxes (SALT). What is the expected impact on the municipal securities market from changes to federal income tax law that effect SALT?

Specifically, describe provisions in The Act that make changes to federal individual and corporate income tax laws that are likely to

have a significant impact on the municipal securities market? Using the theoretical and empirical literature on financial market efficiency and the economics of the municipal tax-exemption, analyze how these changes are expected to impact the municipal market? Be sure to analyze the linkages between changes to federal tax laws, SALT, state and/or local government finances, and the supply and demand of municipal debt. Finally, use your analysis from above to project the future state of the municipal market along several important dimensions (e.g., supply and demand factors, credit quality, debt structure, etc.), and the sufficiency, cost and allocation of public capital investment in the United States.

6. Trading in the municipal securities secondary market has been said to be “opaque.” Is this characterization accurate today? 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. Also include in your analysis the impact of structural and legal changes to the market, before and after the Great Recession. You may compare and contrast the municipal market with other fixed income markets.