

Guidelines on Expectations of the Public Finance Field Exam

School of Public & Environmental Affairs, Indiana University

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Purpose of the Public Finance Comprehensive Exam

Passage of the public finance doctoral exam demonstrates the candidate's ability to teach, conduct research, and participate in the scholarly community of public finance and budgeting.

Exam Rules (Subject to Change with Notice)

- Supporting materials, including but not limited to notes, articles, books, the internet, are not allowed during the exam. Exception: A list of references that contains standard bibliographic information only is allowed in the exam. You may organize the list of references by topic if you wish.
- You shall not identify yourself in the exam. This will ensure that grading is double blind.
- You shall not discuss the questions with anyone while preparing your answers during the exam.

Exam Format (May Change with No/Limited Notice)

Beginning in 2017, the exam format will deviate from the tradition of including a “general” section. The exam will have six questions evenly divided by the three specialized topics. The students will be asked to answer four questions of their choosing, and they must answer at least one question from each section.

The new format will be:

- Two questions on taxation/revenue theory.
- Two questions on public budgeting.
- Two questions on capital and debt.

Students must answer two questions from one section of their choosing and one question from each of the remaining two, for a total of four answered questions.

The exams from previous years are available from the Ph.D. program office. Recent exams and example answers are also available at <https://sites.google.com/site/jross08/pubfinexams>.

Coursework

The public finance field exam is a comprehensive examination of the field, not coursework at SPEA. You should consult with your advisor and progress review committee for guidance tailored to your preparation. Field courses designed for doctoral students include:

- Doctoral Seminar in Public Budgeting (F668)
- Doctoral Seminar in Public Revenue Theory (F666)
- Doctoral Seminar in Public Debt (converted from F685)

- Advanced Microeconomics for Public Policy (P710)

Note that, depending on the level of prior coursework on these topics, it may be necessary to enroll in MPA courses such as F560, F609, F667, F542, or any other course in collaboration with your advisor. Unless you have taken the equivalent course at another university, good preparation for the examination and the public finance field in general would be to take every graduate course in public finance offered by SPEA faculty.

Citations to Literature in the Exam

Parenthetical in-text citations are sufficient, and complete references are not necessary. For example, the following sentence would be satisfactory:

Hamilton (1974) built upon the seminal piece by Tiebout (1956) by demonstrating the optimal provision of local public expenditures when land use regulations restricted the supply of housing.

In the above, author-year is sufficient. It is neither necessary nor desirable for you to follow your answer with a full bibliography of cited works. Spend your study time on more useful endeavors. The reviewers care more about whether you cite references appropriately to reflect an understanding of the material. Questions are generally not designed to invoke a review of the literature but rather to see whether you can apply and extend that literature to the question being asked.

Expected Familiarity with the Field

As it is an exam over the field, the student will benefit from being a casual, but regular, reader of certain publications that are widely read in the profession. You should start early in your graduate education. This includes peer reviewed academic journals like the *National Tax Journal* and *Public Budgeting & Finance*, but students might also find benefit in reading more applied outlets like *Wall Street Journal*, *State Tax Notes*, and *Governing Magazine*.

IU libraries have institutional subscriptions to the NTJ and PBF.

In addition, both the NTJ and PBF typically have a special issue or symposium on a “hot topic” of public finance that appears following the spring conference of the NTA and the fall conference of ABFM. It is not the policy of the public finance committee to draw a question from these issues, but they are good candidates.

You are encouraged to read the public budgeting and finance journals, as well as other journals which regularly publish research from our field. Examples of peer-reviewed academic journals in the field of public finance and budgeting include, but are not limited to:

- Journal of Public Economics
- Public Finance Review
- International Tax and Public Finance
- Municipal Finance Review
- Journal of Public Budgeting, Accounting, and Financial Management
- Public Finance and Management

Finally, it is good to read textbooks cover-to-cover. There is rarely enough time in a course to go through an entire textbook, and time constraints often cause the chapters to be read out-of-order. There is some benefit then to reading how another author comprehensively reviews the field and organizes the topics. Some textbooks that may help include:

- Mikesell's *Fiscal Administration*
- One of the many public finance economics texts (e.g., Hyman, Gruber, or Stiglitz).
- Shome, ed., *Tax Policy Handbook* (IMF)
- Lee, Johnson, and Joyce, *Public Budgeting Systems*
- Irene Rubin, *New Directions in Budget History*
- John R. Bartle, *Evolving Theories of Public Budgeting*
- Aman Khan and W. Bartley Hildreth, *Financial Management Theory in the Public Sector*

Expected Familiarity with Topics

Although the exam is not a test of the coursework, the topics covered in the courses are a good basis for identifying topics of study, as are the topics that appear regularly in the widely read outlets. The “property tax debate”, for example, is covered extensively and has readings listed in F666, which the committee is aware of in writing questions and grading answers. If the exam draws a question on “Monroe County’s Payments in Lieu of Property Taxes”, it is more likely that the question will give more detail on the policy in an attempt to see if the student can identify relevant theory and transfer their knowledge to the analysis of that policy.

Students should also have basic familiarity with general government fiscal facts. For example, what services do different levels of government typically provide? What taxes are most heavily relied upon at different levels of government? How do fiscal systems differ across nations? How do tax structures differ between developed and less developed countries?

Expected Familiarity with Research Methods

Students should demonstrate familiarity with research methods to the extent that they are significant to our understanding of the nature of the field. Studying tax evasion, for example, presents significant data problems because it is difficult to observe, so the student would be expected to know that this field tends to rely heavily on experimental methods and indirect measures of income and consumption. You are not required, however, to describe best practices or theory in experimental economics. Labor supply responses to taxation contain a host of econometric problems that have been significant influences on the field (e.g. selection bias, endogeneity, etc.) that the student should be aware of, but it is not expected that the student will discuss the merits of regression discontinuity or successful instrument variables. Examiners want to know if the students are aware of the contribution of research methods to the field of public finance, and are generally not seeking a contrasting of techniques for technique’s sake.

Expected Familiarity with Contemporary Public Policy

As purveyors of a field in a public affairs school, the public finance faculty expects that its doctoral students will have familiarity with major current policy concerns. Good examples can be found if the student reviews public finance exams from previous years. This does not imply that the expectation is to

parse the politics of topics under discussion but it does imply that the student will understand how public finance research contributes to an understanding of the topic and what questions remain open for more research. Public finance theory provides information to discussions of tax reform, fiscal austerity, municipal default and bankruptcy, etc., and it is expected that students will use their understanding of the field and existing research evidence to write thoughtfully on such topics.

FREQUENTLY ASKED QUESTIONS

“How does the exam get written?”

In the late spring, the current available public budgeting and finance faculty are solicited to produce questions for the exam. They are compiled into an exam and edited to provide balance in coverage of content.

“How is the exam graded?”

Each reviewer is asked to provide a grade on each question answered by the student along the following subjective scale:

- High Pass
- Pass
- Marginal Pass
- Marginal Fail
- Fail

The committee then considers the exam in its entirety. It is possible, for example, that a student who receives a “Fail” on a single question, could offset this damage with a “High Pass” on another, and the committee could decide that on balance the student has demonstrated a passing performance.

“What are the Reviewers looking for in the answers to their questions?”

Exam-takers should demonstrate to the committee that they have a comprehensive and deep command of the public finance field in their answers by sharing as much of their knowledge on the topic. The student should basically seek to tell the committee absolutely everything they know on the topic. Graders of the exam assume the student does not know anything they do not write in their answer, including the definitions of terms. This means that, to varying degrees, the answers will:

1. Explicitly define every term, concept, and idea.
2. Be able to apply theoretical concepts;
3. Cite appropriate literature;
4. Be familiar with major empirical findings;
5. Demonstrate knowledge of the history of the field (e.g. history of theory/thought; significant policies or reforms that influenced the field, etc.)

Any single question might not directly ask for all of this information, but when the exam is judged in its entirety, this is what is evaluated. As an example, consider the following question (taken from the “Taxation” questions of the 2013 exam):

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.

A **passing** answer to this single question would have covered at least the following bases in the answer:

- Describe what excess burden is in the Hicksian/Marshallian tradition, noting the importance of income effects as the source of divergence between the two.
- Demonstrate the difference between “average tax rate” and “marginal tax rate”, and how the distinction is relevant in answering the question.
- In using all of the terms above (e.g. excess burden, average tax rate, etc), clearly defining what they are and what they mean by presuming that the reader does not have any concept or background knowledge on the topic.

A **superior/excellent** answer might go beyond what the question directly asks (while staying on topic!). This might include discussions such as:

- Describe how the excess burden concerns might be empirically tested.
- Used very specific examples of the types of deductions, exemptions, or avoidance strategies and relate to how they create excess burden.
- Describe policy reforms that have been attempted (or suggested) that improve or make these concerns worse.
- Describe how ill-defined accounting measures of “corporate income” might be a problem.

“Suppose Mr. Smith buys an old desk at a church rummage sale for \$50 in 1998. The desk then sits in his garage for a number of years, collecting dust. In 2014, he decides to clean it up and bring it into the house, at which point he discovers \$75,000 hidden behind the desk drawer. There is no practical way of figuring out possible ownership. Please discuss the tax issues that Mr. Smith faces and how they fit with the general principles of tax policy.”

A **passing** answer would discuss the following questions:

- Is there any income here? Consider within Haig – Simons and actual tax structure definitions of income.
- Timing: when would any tax be due? 1998, in which there could be statute of limitations questions? 2014? Or some other date?
- If it is income, what sort of income is it? Ordinary income? Capital gains? Or something else?
- Compliance: is taxpayer morality the only means through which any liability would be paid? Is this an appropriate way to administer a tax structure?

A **superior / excellent** answer would cover the above points. It could go further:

- Discuss the relationship to principles of “treasure trove” property, as elaborated in *Cesarini v. United States* (1969).
- Argue the idea that use of Kaldor conception of ability would avoid virtually all issues identified above.

“How Much Citation is Necessary?”

It varies from question-to-question. Almost all answers can be improved with citation to major contributions from the literature, even if it is not directly requested in the question. You should be able to cite many of the papers from the syllabi of your courses, and definitely be able to cite significant authors that formed the literature (e.g. Tiebout, Samuelson, Key, Musgrave, Buchanan, etc.).