ECO 524:
Graduate Public Finance II

February 4, 2023

Time/Place: Thursdays 1-4PM. In 201 Julis Romo Rabinowitz.

Instructor: Michael Carlos Best, 236 Julis Romo Rabinowitz

Email: mb0874@princeton.edu

Office Hours: By appointment, Mondays or Thursdays.

1 Course Description and Objectives

This course covers a range of topics in public finance, building on the foundations you covered in ECO 523. In the process, we will cover both applied theory papers and empirical papers applying the latest empirical methods to expose you to the toolkit of modern public finance. We will cover five broad topics.

1. Normative Foundations: The canonical approach to optimal tax and transfer policy takes *social marginal welfare weights* as primitives. But what are these? Where do they come from? How do citizens and taxpayers *actually* think about the tradeoffs implicit in tax and transfer policy, and how can this inform policy design?

2. The Scope of Government: The government plays a large role in the economy. It is the largest employer in most countries. It buys large amounts of goods and services from the private sector. How big of a role should the government play in the economy? How does government's direct participation in the economy affect markets?

3. Tax Compliance: Enforcement of tax obligations is imperfect everyshere. How much tax evasion is there? How can governments reduce tax evasion? How should tax systems be designed in the presence of high levels of tax evasion and informality? What role do tax havens play in the global tax landscape?

4. Anti-Poverty Programs: Targeted transfers to poor household are a huge part of government spending. How should these programs be designed? Should they be monetary or in-kind transfers? Should they be means-tested? If so, how will eligibility be determined?

5. Geography and Public Finance: When factors are mobile, how does this affect the incidence of taxes? How do taxes affect mobility decisions? How does factor mobility affect the ability of governments to redistribute? What is the role of the property tax (a tax on an immobile factor?) in the tax landscape?

1.1 Course Materials, Readings, and In-Class Presentations

I'll put the lecture slides, this course outline, and a reading list in our Canvas page here. I will be updating the materials as we go, so make sure to check back regularly to see if there are updates.

In the syllabus, I will mark the absolutely required readings with two stars (**). Each week, there will also be a reading with one star and the date (*M/DD). Each week, you are required to prepare *one* 6-slide (excluding the title slide) discussion of this papers and bring it with you to class on a USB drive. The model here is to imagine you are discussing the paper at a conference. So you should spend 1-3 slides summarizing the main findings of the paper, but assume everyone else has read it, so highlight only things you find particularly interesting and worth discussing more. Then use your remaining slides to make 2-3 points about the paper that are things you think could be done even better. Try and be constructive, it's easy to point out flaws in papers, it's much more difficult, but much more useful, to think of ways to do things better.

I will randomly call on someone to present their discussion each week, and then we'll discuss the paper as a group. NB the randomization will be with replacement, so don't think that you can't be called more than once!

2 Evaluation

You will be evaluated in 4 ways

1. Replication exercise (see section 3). [25%]

2. Referee report (see section 4). [25%]

3. Virtual paper (see section 5). [30%]

4. Class participation [20%]

You will receive letter grades for your referee report and replication. I will give you more detailed feedback on your virtual paper.

3 Replication Exercise

The idea here is for you to get your hands dirty with some real data to do two things. First, to play with the data but with the reassurance of knowing what the answer "should" be when you run a certain regression so you don't need to agonize about all the decisions you made to

get there. Second, to see how many agonizing decisions go into producing the small number of tables/figures you see in a finished paper.

To do this, go through our syllabus and pick a paper to try and replicate (you can also pick another paper on a related topic, but check with me first please). Most recent papers also post replication data/code on the authors' websites, the journal's website or both. Download the replication code and data. There will be a readme file that explains what all the pieces of code and data are and how to use them to replicate the paper's results. Read this first, before you start playing with the code and data, it will save you time. Run the code to replicate the paper's results. Double-check you get the same thing as in the paper.

Then, prepare a replication report in which you detail

1. Where you got the code/data from and what issues, if any, you had in replicating the paper's findings.

2. One interesting robustness check. For example, this can be robustness to the criteria used to build the sample that's used for analysis. Many decisions fo into constructing the sample that's used for the analysis, how robust are the findings to making other sensible choices? How sensible are the choices that the paper makes? Or it could be robustness to statistical methods. For example using logit instead of a linear probability model, or using randomization inference instead of asymptotic standard errors. What are the advantages and weaknesses of the methods used in the paper versus other possibilities? Or it could be robustness to adding additional controls (or removing controls you suspect could be bad controls).

3. One interesting extension. Do some new analysis with this data. Does the model in the paper have an additional prediction you can test? Can you write a model that delivers an additional prediction you can test? Can you bring in additional data that allows you to test additional predictions to get at mechanisms? Is there a subsequent paper whose findings should replicate in this sample?

4. A summary of what you learned from the exercise. Reflect on how this exercise will change the way you approach analyzing data in your own research.

This report will be due on 3/22. Please upload the report in canvas as a pdf by 5pm.

4   Referee Report(s)[1]

Pick ONE of the following two papers: Jakob Brounstein - Can Countries Unilaterally Mitigate Tax Haven Usage? Evidence from Ecuadorian Transaction Tax Data *or* Manasi Deshpande & Rebecca Dizon-Ross - The (Lack of) Anticipatory Effects of the Social Safety Net on Human Capital Investment. Write a referee report for this paper assuming that the paper has been submitted to the *Journal of Public Economics*, the main field journal in public economics.

---

[1]Thanks to Emmanuel Saez for the structure of this exercise and the instructions

A referee report includes two items:

1. An anonymous report which briefly summarizes the key contributions of the paper and then discusses constructively the main issues with the paper (why some assumptions or arguments are not convincing or clearly presented, how the paper could be improved). The length of this report should be between 2 or 3 pages of typed text, 12 pt font, and 1.5 line spacing. I will share your reports with the authors, since they could be helpful to them as they revise the papers for submission. Therefore, please **DO NOT put your name on the pdf** you upload in canvas (and make sure it's not in the header metadata either)! This is a very useful resource on how to write good referee reports.

2. A letter to the editor with a recommendation on whether the paper should be published. The recommendation should be briefly justified (the length of the letter should be between 10 and 15 lines of typed text). This one *should* include your name please so I know who wrote it ;)

This referee report will be due on 4/14. Please upload your referee report in canvas by 5pm.

5 Virtual Paper[2]

The assignment here is not to finish a paper, it is to have a viable plan for a paper. I'd rather that you get 50% of the way toward a project that you're excited to continue after the semester finishes than that you complete a less ambitious paper in the timeframe of one semester.

You will formulate an original research idea, develop a practical plan for executing the idea, and take initial steps in the execution. The paper may take the following form:

1. Introduction: What is the specific question and why is the question of interest?

2. Literature Review/ Contribution: How does your paper fit into the broader literature? What is the potential contribution of this paper relative to the existing literature? What do we learn about the world that we didn't know before your paper?

3. Theoretical Motivation: This could be actual theory or just a sketch of the relevant theory that underlies your question.

4. Data: What data would you use to answer/address this question? Why are the data well suited to the question?

5. Empirical Methodology: How would you use the data to answer your question? Be explicit about identification and causality, keeping in mind that the same set of empirical facts can often support many theories. Depending on the nature of your question and the ease of accessing and using the data, I may ask you to make significant progress in the actual implementation of your proposed empirical work.

---

[2]Thanks to Owen Zidar for the name "Virtual Paper" and the guidelines

6. Falsification Tests: What other specifications, tests and investigations could either bolster or cast doubt upon the primary tests of your hypotheses?

7. Preliminary Results: The extent of the results provided will differ across students based on the project and discussions with me.

This paper will be due on 5/5. Please upload your paper in courseworks as a pdf by 5PM.

6   Schedule

Meeting	Date	Agenda
1	2/16	Normative Issues
2	2/23	The Scope of Government
3	3/2	Tax Compliance 1: Empirics
4	3/9	Tax Compliance 2: Development
	3/16	Spring Break. No Meeting
	3/22	**Replication Report Due**
	3/23	No Meeting
5	3/30	Tax Compliance 3: Tax Havens
6	4/6	Anti-Poverty 1: Theory & Rich Countries
7	4/13	Anti-Poverty 2: Development
	4/14	**Referee Report Due**
8	4/20	Geography & PF: Incidence & Redistribution
9	4/27	Geography & PF: Property Taxation
	5/5	**Virtual Paper Due**