

ECO 524: Graduate Public Finance

Princeton University
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Overview.

This is the first part of the graduate Public Finance sequence. The broad theme of this six-week course is redistribution. We begin with the static Mirrlees model of optimal income taxation (you will see dynamic versions of this model in the Spring) and in particular empirical estimates of taxable income elasticities, a key parameter in this model. We then cover social insurance (theory, empirical evidence of moral hazard, empirical evidence of consumption smoothing, and implementation issues), with a focus on health insurance (redistribution from the healthy to the sick). We end with public goods, local public finance and fiscal federalism.

Course materials.

You will receive detailed lecture notes before each class. I will provide any paper on the reading list not on Google Scholar.

Presentations.

Starred papers on the syllabus are available for students to present. Presentations will be 10 minutes and should be performed in the style of a job paper presentation (even though it is not your own material). A subset of starred papers are marked with † are recent job market papers.

Independent research.

On the final day of class (16 December) you will each present preliminary results from an independent research project. Details are provided on a separate handout.

Exam.

There will be a final exam during the exam period in January. You will be provided with last year's exam as an (ungraded) problem set.

Schedule of topics covered and readings

Overview: The role of government in the economy

J. Stiglitz (1998). “Distinguished Lecture on Economics in Government: The Private Uses of Public Interests: Incentives and Institutions.” *JEP* 12.2, pp. 3–22

A. Meltzer and S. Richard (1981). “A rational theory of the size of government.” *The Journal of Political Economy* 89.5, pp. 914–927

T. Husted and L. Kenny (1997). “The Effect of the Expansion of the Voting Franchise on the Size of Government.” *JPE* 105.1, pp. 54–82

V. Ashok, I. Kuziemko, and E. Washington (forthcoming). “Demand for Redistribution in an Age of Rising Inequality: Some New Stylized Facts and Tentative Explanations.” *Brookings Papers for Economic Activity*

L. Boustan et al. (2013). “The effect of rising income inequality on taxation and public expenditures: evidence from US municipalities and school districts, 1970–2000.” *Review of Economics and Statistics* 95.4, pp. 1291–1302

L. Edlund and R. Pande (2002). “Why have women become left-wing? The political gender gap and the decline in marriage.” *Quarterly Journal of Economics*, pp. 917–961

A. Finkelstein (2009). “E-ztax: Tax Salience and Tax Rates.” *The Quarterly Journal of Economics* 124.3, pp. 969–1010

E. U. Cascio and E. Washington (2014). “Valuing the Vote: The Redistribution of Voting Rights and State Funds following the Voting Rights Act of 1965.” *The Quarterly journal of economics* 129.1, pp. 379–433

I. Kuziemko and E. Washington (2015). “Why did the Democrats lose the South? Bringing new data to an old Debate.” Mimeo, Princeton

Mirrlees model of optimal income taxation (static)

J. A. Mirrlees (1971). “An exploration in the theory of optimum income taxation.” *Review of Economic Studies* 38.2, pp. 175–208

E. Saez (2001). “Using Elasticities to Derive Optimal Income Tax Rates.” *Review of economic studies* 68.1, p. 205

P. Diamond and E. Saez (2011). “The case for a progressive tax: from basic research to policy recommendations.” *The Journal of Economic Perspectives* 25.4, pp. 165–190

E. Saez, J. Slemrod, and S. H. Giertz (2012). “The elasticity of taxable income with respect to marginal tax rates: A critical review.” *Journal of Economic Literature*, pp. 3–50, Sections 1 and 2 only

J. Charité, R. Fisman, and I. Kuziemko (2015). *Reference Points and Redistributive Preferences: Experimental Evidence*. Tech. rep. National Bureau of Economic Research

Empirical estimates of taxable income elasticity

E. Saez, J. Slemrod, and S. H. Giertz (2012). “The elasticity of taxable income with respect to marginal tax rates: A critical review.” *Journal of Economic Literature*, pp. 3–50, Sections 3, 4 and 5

T. Piketty, E. Saez, and S. Stantcheva (2014). “Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities.” *American Economic Journal: Economic Policy* 6.1, pp. 230–71

M. Feldstein (1995). “The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act.” *Journal of Political Economy* 103.3, pp. 551–72

J. Gruber and E. Saez (2002). “The elasticity of taxable income: evidence and implications.” *Journal of Public Economics, Elsevier* 84.1, pp. 1–32

R. Chetty (2012). “Bounds on elasticities with optimization frictions: A synthesis of micro and macro evidence on labor supply.” *Econometrica* 80.3, pp. 969–1018

E. Saez (2010). “Do taxpayers bunch at kink points?” *American Economic Journal: Economic Policy*, pp. 180–212

H. J. Kleven (2014). “How can Scandinavians tax so much?” *The Journal of Economic Perspectives*, pp. 77–98

N. Eissa (1995). *Taxation and labor supply of married women: the Tax Reform Act of 1986 as a natural experiment*. Tech. rep. National Bureau of Economic Research

Social insurance: Basic theory

A. Nichols and R. Zeckhauser (1982). “Targeting Transfers Through Restrictions on Recipients.” *AER* 72.2, pp. 372–377

G. Akerlof (1978). “The Economics of Tagging As Applied to the Optiomal Income Tax, Welfare programs, and Manpower Planning.” *AER* 68.1, pp. 8–19

S. Coate (1995). “Altruism, the Samaritan’s dilemma, and government transfer policy.” *The American Economic Review*, pp. 46–57

S. Peltzman (1973). “The effect of government subsidies-in-kind on private expenditures: The case of higher education.” *The Journal of Political Economy*, pp. 1–27

Social insurance: Empirical estimates of moral hazard

R. Chetty (2008). “Moral Hazard versus Liquidity and Optimal Unemployment Insurance.” *Journal of Political Economy* 116.2, pp. 173–234

D. M. Cutler and J. Gruber (1996). “Does Public Insurance Crowd Out Private Insurance?” *Quarterly Journal of Economics* 111.2, pp. 391–430

*G. B. Dahl, A. R. Kostøl, and M. Mogstad (2014). “Family Welfare Cultures.” *The Quarterly Journal of Economics*, qju019

*D. H. Autor and M. G. Duggan (2003). “The rise in the disability rolls and the decline in unemployment.” *The Quarterly Journal of Economics*, pp. 157–205

Social insurance: Consumption smoothing

R. Chetty and A. Szeidl (2007). “Consumption commitments and risk preferences.” *The Quarterly Journal of Economics* 122.2, pp. 831–877

J. Rothstein and R. G. Valletta (2014). “Scraping by: Income and program participation after the loss of extended unemployment benefits”

http://eml.berkeley.edu/~jrothst/workingpapers/rothstein_valletta_feb2014.pdf

* † M. Deshpande (2014). “Does Welfare Inhibit Success? The Long-Term Effects of Removing Low-Income Youth from Disability Insurance”

<http://economics.mit.edu/files/10156>

Social insurance: Implementation issues

*J. Hastings and E. Washington (2010). “The First of the Month Effect: Consumer Behavior and Store Responses.” *American Economic Journal: Economic Policy* 2.2, pp. 142–62

*J. M. Cunha, G. De Giorgi, and S. Jayachandran (2013). “The Price Effects of Cash Versus In-Kind Transfers”

<http://faculty.wcas.northwestern.edu/~sjv340/pal.pdf>

* † K. Meckel (2014). “Is the Cure Worse than the Disease? Unintended Consequences of Fraud Reduction in Transfer Programs”

http://www.columbia.edu/~khm2110/kmeckel_jmp.pdf

O. Hart, A. Shleifer, and R. Vishny (1997). “The Proper Scope of Government: Theory and an Application to Prisons.” *Quarterly Journal of Economics* 112.4, pp. 1127–1161

*A. Leigh (2010). “Who benefits from the earned income tax credit? Incidence among recipients, coworkers and firms.” *The BE Journal of Economic Analysis & Policy* 10.1

Government involvement in health insurance

Adverse selection

M. Rothschild and J. Stiglitz (1976). “Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information.” *Quarterly Journal of Economics* 90.4, pp. 629–649

G. A. Akerlof (1970). “The market for lemons: Quality uncertainty and the market mechanism.” *Quarterly Journal of Economics*, pp. 488–500

L. Einav and A. Finkelstein (2011). “Selection in Insurance Markets: Theory and Empirics in Pictures.” *Journal of Economic Perspectives* 25.1, pp. 115–38

† M. Shepard (2015). *Hospital Network Competition and Adverse Selection: Evidence from the Massachusetts Health Insurance Exchange*

http://scholar.harvard.edu/files/mshepard/files/mshepard_jmp_hospital_networks_adverse_selection.pdf

I. Kuziemko, K. Meckel, and M. Rossin-Slater (2013). *Do Insurers Risk-Select Against Each Other? Evidence from Medicaid and Implications for Health Reform*. Working Paper 19198. National Bureau of Economic Research

D. Cutler and S. Reber (1998). “Paying for Health Insurance: The Trade-Off between Competition and Adverse Selection.” *Quarterly Journal of Economics* 113.2, pp. 433–466

† D. Alexander (2015). “Do Doctors Engage in Risk-Selection.” Princeton mimeo

http://scholar.princeton.edu/sites/default/files/dalexand/files/alexander_jmp.pdf

Supply-side issues

A. Finkelstein (2007). “The Aggregate Effects of Health Insurance: Evidence from the Introduction of Medicare*.” *The Quarterly journal of economics* 122.1, pp. 1–37

A. Finkelstein and R. McKnight (2008). “What Did Medicare Do? The Initial Impact of Medicare on Mortality and Out of Pocket Medical Spending.” *JPE* 92.7, pp. 1644–1669

* † J. Clemens and J. D. Gottlieb (2014). “Do Physicians’ Financial Incentives Affect Medical Treatment and Patient Health?” *American Economic Review* 104.4, p. 1320

Public goods [May skip if time does not permit]

J. Andreoni (1993). “An experimental test of the public-goods crowding-out hypothesis.” *AER* 83.5, pp. 1317–1327

* † H. L. Williams (2013). “Intellectual Property Rights and Innovation: Evidence from the Human Genome.” *Journal of Political Economy* 121.1, pp. 1–27

B. Kingma (1989). “An Accurate measurement of the crowd-out effect, income effect, and price effect of charitable contributions.” *JPE* 97, pp. 1197–1207

Fiscal federalism

W. Oates (1995). “Searching for Leviathan.” *AER* 75.4, pp. 748–757

T. Besley and S. Coate (2003). “Centralized versus decentralized provision of local public goods: a political economy approach.” *Journal of public economics* 87.12, pp. 2611–2637

* † N. Gordon (2004). “Do Federal Grants Boost School Spending? Evidence from Title I.” *JPE* 88.9-10, pp. 1771–1792

R. P. Inman and D. L. Rubinfeld (1997). “Rethinking federalism.” *The Journal of Economic Perspectives*, pp. 43–64

M. Feldstein and M. Wrobel (1998). “Can State Taxes Redistribute Income?” *JPE* 68.3, pp. 369–396

H. J. Kleven, C. Landais, and E. Saez (2013). “Taxation and International Migration of Superstars: Evidence from the European Football Market.” *American Economic Review* 103.5, pp. 1892–1924

Local public finance

E. L. Glaeser et al. (2008). “The Economics of Place-Making Policies.” *Brookings Papers on*

Economic Activity, p. 155

J. Donahue (1997). “Tiebout or not Tiebout.” *JEP* 11.4, pp. 73–82

P. Rhode and K. Strumpf (2003). “Assessing the Importance of Tiebout Sorting: Local Heterogeneity from 1850 to 1990.” *AER* 93.5, pp. 1648–1677

S. Black (1999). “Do Better Schools Matter? Parental Valuation of Elementary Education.” *QJE* 114.2, pp. 577–599

P. Bayer, F. Ferreira, and R. McMillan (2007). “A Unified Framework for Measuring Preferences for Schools and Neighborhoods.” *Journal of Political Economy* 115.4

R. F. Epple Dennis and T. Romer (1984). “Equilibrium among local jurisdictions: Toward an integrated treatment of voting and residential choice.” *JPE* 24.3, pp. 281–308

R. Fernandez and R. Rogerson (1996). “Income Distribution, Communities, and the Quality of Public Education.” *QJE* 111.1, pp. 135–164

J. Roback (1982). “Wages, rents, and the quality of life.” *The Journal of Political Economy*, pp. 1257–1278

J. R. Kling, J. B. Liebman, and L. F. Katz (2007). “Experimental analysis of neighborhood effects.” *Econometrica* 75.1, pp. 83–119