

New York University
Robert F. Wagner Graduate School of Public Service
P11.2140 Public Economics and Finance, Spring 2006
Wednesdays 4:30-6:10 pm, Silver 507
Professor Jason Furman

Office Hours: Schedule appointments anytime, Puck 3019
Email: jason.furman@nyu.edu
Phone: 212-998-7562, Fax: 212-658-9010

COURSE OBJECTIVES & PREREQUISITES

Public finance (also known as public economics) analyzes the impact of public policy on the allocation of resources and the distribution of income in the economy. In this course, you will learn how to interpret economic analyses and how to use the tools of microeconomics and empirical analysis to investigate and predict the effects of public expenditures, taxes, and regulations.

Prerequisites are:

P11.1011 Statistics

P11.1018 Microeconomics

P11.1021 Financial Management.

This course requires a working knowledge of the material learned in these prerequisite courses. Students should reference their books and notes from these prerequisite classes throughout the semester – the prerequisite material will not be reviewed in class.

BLACKBOARD & E-MAIL

You must have access to the class Blackboard site at <http://classes.nyu.edu/>

All announcements and class related documents will be posted here. Your NYU net account must be activated to access Blackboard (go to <http://start.nyu.edu> for details).

Some class announcements will be distributed via NYU e-mail. Thus, it is important that you actively use your NYU e-mail account, or have appropriate forwarding set up on NYUHome <https://home.nyu.edu/>.

READINGS

Books:

Jonathan Gruber, *Public Finance and Public Policy*, Worth Publishers, 2005.

Other readings:

Other readings are posted on Blackboard.

COURSE REQUIREMENTS

Class Preparation:

Required readings should be done before the class for which they are listed.

Class Participation and Four Reading Discussions (10 percent):

Your participation in class discussion is expected. In addition, you are expected to complete four “reading discussions” by 10am on the morning of the relevant class. You should e-mail 2-3 paragraphs of your thoughts and opinions on one or more of the assigned readings for any four weeks of your choice – please focus on the non-textbook readings. Please begin the subject line of your e-mail with: “Reading:”.

Four Problem Sets (10 percent):

A series of end-of-chapter problems are assigned from Gruber. It is essential that you master these problems in order to learn the material. You will receive credit if you make a good faith effort to solve all of the problems in each assignment and turn in the assignment on time. The questions are listed in the syllabus; solutions will be posted on Blackboard.

Two Written Exercises (30 percent):

You can work individually or in teams of two (both team members will receive the same grade). To receive any credit, the exercises must be turned in on time.

Tax Memo: Analyze three or four of the major provisions of the “Simplified Income Tax Plan” proposed by the President’s Advisory Panel on Federal Tax Reform (available at www.taxreformpanel.gov). In particular, analyze the provisions from the perspective of the goals of simplicity, horizontal equity, vertical equity, and efficiency. Recommend your own alternatives to these provisions, either a modification of the Commission’s proposals or a completely different option. The memo should be about 5 pages long. It should not be a standard essay, instead you should use formatting, bullet points, and other techniques to communicate your analysis in an easily digestible manner.

Social Security Exercise: The details of this quantitative exercise are posted on Blackboard. You will need to use Excel to complete the exercise.

Exams (50 percent):

There will be an in-class midterm and a final exam, each worth 25 percent of the grade. The final exam will only cover the material after the mid-term, it is not cumulative. There are no make-ups. If you have a conflict with the scheduled exams dates, you should not take this course. Practice exams are posted on Blackboard.

TUTORING

Kara Merrill Verma is the tutor and grader for the course. She is available on Mondays (3-4 and 7-8) and Wednesdays (6:30-7:30) but only if you request an appointment in advance, if possible also indicating your question(s). You can contact her at kam248@nyu.edu or (914) 330-1319.

STATEMENT OF ACADEMIC INTEGRITY

As members of the NYU Wagner community, we are all expected to adhere to high standards of intellectual and academic integrity. An example of how NYU describes academic integrity is available at <http://www.nyu.edu/cas/map/integrity.pdf>. This is a good resource for issues of academic honesty. For this particular course, there are some specific behaviors required to meet our standards of academic integrity:

Assignments: While we strongly encourage all students to work in groups, the final write up of assignments must be done individually with no sharing of written answers.

Policy Exercise: If this is a team submission, all members of the team must contribute to the joint effort. There must be no free-riding.

Exams: All exams must be the sole work of the individual student.

Violations of these standards will automatically result in failure of the course and remand to the discipline committee for further action.

COURSE OUTLINE

All required readings and questions should be completed before the class for which they are listed.

Date	Topic	Assignment
January 18	Introduction to Public Finance	
January 25	Government Budgets	
February 1	Introduction to Taxation and Tax Incidence	Problem Set 1
February 8	Tax Efficiency and Labor Supply	
February 15	Savings, Risk Taking & Wealth	
February 22	Corporate Taxation	Problem Set 2
March 1	Fundamental Tax Reform	Policy Memo
March 8	MIDTERM EXAM	
March 22	Market failures; Cost-benefit Analysis	
March 29	Social Insurance	
April 5	Social Security	Problem Set 3
April 12	Health Insurance	Social Security Exercise
April 19	Income Distribution and Welfare Programs	
April 26	State and Local Public Finance	Problem Set 4
May 3	FINAL EXAM	

WEEK 1 (January 18)

Introduction to Public Finance

Required Readings:

Gruber: (1) Why Study Public Finance?, (2) Theoretical Tools of Public Finance, (3) Empirical Tools of Public Finance, including appendix.

WEEK 2 (January 25)

Government Budgets

Required Readings:

Gruber: (4) Tools of Budget Analysis.

Congressional Budget Office, *The Budget and Economic Outlook*, January 2006. [pages to be skimmed to be announced]

Gale, William G. and Peter R. Orszag, "The Budget Outlook: Projections and Implications," *Economist's Voice* 1(2), 2004.

Ball, Laurence and N. Gregory Mankiw, "What do budget deficits do?," in *Budget Deficits and the Debt: Issues and Options*, Federal Reserve Bank of Kansas City, 1995, 95-119.

Optional Readings:

Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2006*, Washington, DC: Government Printing Office, 2005.

Gokhale, Jagadeesh and Kent Smetters, *Fiscal and Generational Imbalances*, Washington, DC: AEI Press, 2003.

Kotlikoff, Laurence J. "The Coming Generational Storm," Mimeo, 2001.

Auerbach, Alan J., Jagadeesh Gokhale and Laurence J. Kotlikoff, "Generational Accounting: A Meaningful Way to Evaluate Fiscal Policy," *Journal of Economic Perspectives* 8(1), Winter 1994, 73-94.

WEEK 3 (February 1)

Introduction to Taxation and Tax Incidence

Required Readings:

Gruber: (18) Taxation in the United States and Around the World; (19) The Equity Implications of Taxation: Tax Incidence, including appendix

Steuerle, Eugene, "Tax Reform and Fairness for Families," PowerPoint Presentation to the President's Advisory Panel on Tax Reform, March 23, 2005.

Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979-2002*, March 2005. [*Skim* this document].

Council of Economic Advisers, "Chapter 4 – Tax Incidence: Who Bears the Tax Burden?," *Economic Report of the President*, Washington, DC: Government Printing Office, 2004.

Optional Reading:

Slemrod, Joel and Jon Bakija, *Taxing Ourselves: A Citizen's Guide to the Debate Over Taxes, Third Edition*, Cambridge: MIT Press, 2004. [Not available online]

Fullerton, Don and Diane Lim Rogers, "Lifetime Versus Annual Perspectives on Tax Incidence," *National Tax Journal* 44:3, 1991, 277-287.

Problem Set 1 is due in class. Gruber Questions: 2.3, 2.10, 2.11, 3.7, 3.12, 4.12, 4.17

WEEK 4 (February 8)

Tax Efficiency and the Effect of Taxes on Labor Supply

Required Readings:

Gruber: (20) Tax Inefficiencies and Their Implications for Optimal Taxation; (21) Taxes on Labor Supply

Feldstein, Martin, "How Big Should Government Be?," *National Tax Journal*, 50(2), June 1997, 197-213.

Carroll, Robert and Warren Hsung, "What Does the Taxable Income Elasticity Say About Dynamic Responses to Tax Changes?" *American Economic Review Papers and Proceedings* 95:2, May 2005, 426-31.

Optional Reading:

Gruber, Jon and Emmanuel Saez, "The Elasticity of Taxable Income: Evidence and Implications," *Journal of Public Economics*, 84, 2002, 1-32.

WEEK 5 (February 15)

Taxes and Saving, Risk-Taking and Wealth

Required Readings:

Gruber: (22) Taxes on Savings; (23) Taxes on Risk Taking and Wealth

Gale, William G. and Joel B. Slemrod, "Policy Watch: Death Watch for the Death Tax?," *Journal of Economic Perspectives*, 15(1), Winter 2001, 205-218.

Mankiw, N. Gregory, "Remarks on the Estate Tax," November 4, 2003.

Duflo, Esther et al, "Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block," *Retirement Security Project No. 2005-5*, 2005.

Optional Readings:

Chetty, Raj and Emmanuel Saez, "Do Dividend Payments Respond to Taxes? Preliminary Evidence from the 2003 Dividend Tax Cut," NBER Working Paper No. 10572, June 2004.

Poterba, James M., Steven F. Venti and David A. Wise, "How Retirement Savings Programs Increase Savings," *Journal of Economic Perspectives*, 10(4), Autumn 1996, 91-112.

Engen, Eric M., William G. Gale and John Karl Scholz, "The Illusory Effects of Saving Incentives on Saving," *Journal of Economic Perspectives*, 10(4), Autumn 1996, 113-138.

Amromin, Gene, et al. "How Did the 2003 Dividend Tax Cut Affect Stock Prices and Corporate Payout Policy," Federal Reserve working paper, September 2005.

WEEK 6 (February 22)
Corporate Taxation

Required Readings:

Gruber: (24) Corporate Taxation

Hubbard, R. Glenn, "Corporate Tax Integration: A View from the Treasury Department,"
Journal of Economic Perspectives, 7(1), Winter 1993, 115-132.

Optional Readings:

Gravelle, Jane, "The Corporate Tax: Where Has It Been and Where Is It Going?" *National Tax Journal*, 57(4), 2004, 903-923.

Problem Set 2 is due in class. Gruber questions: 18.1, 18.7, 18.11, 19.1, 19.2, 19.15, 20.1, 20.2, 20.11, 21.7, 21.10

WEEK 7 (March 1)
Fundamental Tax Reform

Required Readings:

Gruber: (25) Fundamental Tax Reform.

President's Advisory Panel on Federal Tax Reform, *Simple, Fair, & Pro-Growth*, 2005. Read Chapters 1, 5 and 6.

Auerbach, Alan, "A Consumption Tax," *Wall Street Journal*, August 25, 2005.

Optional Readings:

Altig, David et. al., "Simulating Fundamental Tax Reform in the United States," *American Economic Review* 91(3), June 2001.

Auerbach, Alan and Kevin Hassett, *Toward Fundamental Tax Reform*, AEI Press: Washington DC, 2005.

Council of Economic Advisers, "Chapter 5 – Tax Policy for a Growing Economy," *Economic Report of the President*, Washington, DC: Government Printing Office, 2003.

Pechman, Joel, "The Future of the Income Tax," *American Economic Review*, 80(1), March 1990, 1-20.

Tax Memo due in class (see syllabus for details).

WEEK 8 (March 8)
Midterm Exam – in class

WEEK 9 (March 22)

Review of Market Failures; Cost-benefit Analysis

Required Readings:

Gruber: (5) Externalities: Problems and Solutions, (7) Public Goods, (8) Cost-Benefit Analysis.
Hardin, Garrett, "The Tragedy of the Commons," *Science* 162:3859, December 1968, 1243-1248.
Bloom, David E. and Sherry Glied, "Benefits and Costs of HIV Testing", *Science* 252, June 1991, 1798-1801.
Elliot, Gareth and Geoff Harris, "A Cost-Benefit Analysis of Landmine Clearance in Mozambique", *Development Southern Africa* 18(5), December 2001, 625-633.

Optional Reading:

Coase, Ronald, "The Problem of Social Cost," *Journal of Law and Economics* 3, 1960, 1-44.
Duncombe, William, "Public Expenditure Research: What Have We Learned?" *Public Budgeting & Finance*, Summer 1996, 26-58.
Persky, Joseph, "Cost-Benefit Analysis and the Classical Creed", *Journal of Economic Perspectives* 15(4), Fall 2001, 199-208.

WEEK 10 (March 29)

Social Insurance

Required Readings:

Gruber: (12) Social Insurance: The New Function of Government; (14) Unemployment Insurance, Disability Insurance and Workers' Compensation.
Feldstein, Martin, "Rethinking Social Insurance," *American Economic Review*, 95(1), March 2005, 1-24.

Optional Reading:

Meyer, Bruce, "Lessons from the U.S. Unemployment Insurance Experiments," *Journal of Economic Literature*, 33, March 1995, 91-131.

WEEK 11 (April 5)

Social Security

Required Readings:

Gruber: (13) Social Security

Social Security Trustees, *2006 Trustees Report*, 2006. [*Skim* “Introduction” and “Overview”]

Diamond, Peter A. and Peter R. Orszag, “Saving Social Security,” *Journal of Economic Perspectives*, 19(2), Spring 2005, 11-32.

Feldstein, Martin, “Structural Reform of Social Security,” *Journal of Economic Perspectives*, 19(2), Spring 2005, 33-55.

Optional Reading:

Furman, Jason, “Evaluating Alternative Social Security Reforms,” Testimony before the Full Committee of the House Committee on Ways and Means, May 12, 2005.

Liebman, Jeffrey, “Redistribution in the Current U.S. Social Security System,” in Martin Feldstein and Jeffrey Liebman (eds.), *Distributional Aspects of Social Security Reform*, Chicago: University of Chicago Press, 2002.

Problem Set 3 is due in class. Gruber questions: 5.13, 5.15, 8.15, 10.1, 12.3, 12.8, 12.12, 14.7

WEEK 12 (April 12)

Health Insurance

Required Readings:

Gruber: (15) Health Insurance I: Health Economics and Private Health Insurance, (16) Health Insurance II: Medicare, Medicaid, and Health Care Reform

Gruber, Jonathan, 2004, “Tax Policy for Health Insurance,” NBER Working Paper 10977, December 2004.

Poterba, James, “Government Intervention in the Markets for Education and Healthcare,” NBER Working Paper 4916, 1994. [*You can skip the portions on education*]

Optional Reading:

Manning, Willard G., Joseph P. Newhouse, Naihua Duan, Emmett B. Keeler and Arleen Leibowitz, “Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment” *American Economic Review* 77(3), June 1987, 251-277

Social Security exercise due in class (see Blackboard for details)

WEEK 13 (April 19)
Income Distribution and Welfare Programs

Required Readings:

Gruber: (17) Income Distribution and Welfare Programs

Blank, Rebecca M., "Evaluating Welfare Reform in the United States" *Journal of Economic Literature* 40(4), December 2002, 1105–1166.

Glaeser, Edward, "Inequality," NBER Working Paper 11511, June 2005.

Optional Reading:

Autor, David, Lawrence Katz, and Melissa Kearney, "Trends in U.S. Wage Inequality: Re-Assessing the Revisionists," NBER Working Paper 11627, September 2005.

WEEK 14 (April 26)
State and Local Public Finance

Required Readings:

Gruber: (10) State and Local Government Expenditures.

Fisher, Ronald and Leslie E. Papke, "Local Government Responses to Education Grants", *National Tax Journal* 53(1), March 2000, 153-168.

Glaeser, Edward, "Help Poor People, Not Poor Places," *Wall Street Journal*, August 12, 1999.

Optional Reading:

Oates, Wallace E., "An Essay on Fiscal Federalism", *Journal of Economic Literature* 37, September 1999, 1120-1149.

Problem Set 4 due in class. Gruber questions: 13.1, 15.10, 15.14, 16.7, 17.3, 17.5, 17.6

FINAL EXAM (May 3)

GRADING CRITERIA

Grades will be assigned according to the following criteria:

- A Excellent:** Exceptional work for a graduate student. Work at this level is unusually thorough, well reasoned, creative, methodologically sophisticated, and well written. Work is of exceptional, professional quality.
- A- Very Good:** Very strong work for a graduate student. Work at this level shows signs of creativity, is thorough and well-reasoned, indicates strong understanding of appropriate methodological or analytical approaches, and meets professional standards.
- B+ Good:** Sound work for a graduate student; well-reasoned and thorough, methodologically sound. This is the graduate student grade that indicates the student has fully accomplished the basic objectives of the course.
- B Adequate:** Competent work for a graduate student even though some weaknesses are evident. Demonstrates competency in the key course objectives but shows some indication that understanding of some important issues is less than complete. Methodological or analytical approaches used are adequate but student has not been thorough or has shown other weaknesses or limitations.
- B- Borderline:** Weak work for a graduate student; meets the minimal expectations for a graduate student in the course. Understanding of salient issues is somewhat incomplete. Methodological or analytical work performed in the course is minimally adequate. Overall performance, if consistent in graduate courses, would not suffice to sustain graduate status in “good standing.”
- C/-/+Deficient:** Inadequate work for a graduate student; does not meet the minimal expectations for a graduate student in the course. Work is inadequately developed or flawed by numerous errors and misunderstanding of important issues. Methodological or analytical work performed is weak and fails to demonstrate knowledge or technical competence expected of graduate students.
- F Fail:** Work fails to meet even minimal expectations for course credit for a graduate student. Performance has been consistently weak in methodology and understanding, with serious limits in many areas. Weaknesses or limits are pervasive.