

**New York University**  
**Robert F. Wagner Graduate School of Public Service**  
**P11.2140 Public Economics and Finance, Fall 2006**  
**Tuesday 6:20 – 8:00 pm, Silver 711**

**Professor Molly Sherlock**

Office Hours: Tuesdays 5:15pm-6:00pm, TBA

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**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, regulation and government revenue-raising activities.

Prerequisites are:

P11.1011 Statistics

P11.1018 Microeconomics

P11.1021 Financial management

P11.1022 Public policy (may be taken concurrently)

This course requires a working knowledge of the material learned in these prerequisite courses. Students should be prepared to review and 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 (extra readings, discussion questions, class handouts, answers to assignments etc.) 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:**

Most 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 (10 percent):**

Your participation in class discussion is expected.

### **Four Written Assignments (20 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. Please make a copy of your assignment before turning it in. Solutions will be posted on Blackboard.

### **Two Policy Memos (30 percent):**

There will be two policy memos, worth 15 percent each, which can be completed individually or in teams of two (both team members will receive the same grade). Details will be discussed in class. To receive any credit, the memos must be turned in on time.

### **Exam (40 percent):**

There will be an in-class exam worth 40 percent of the grade. There are no make-ups. If you have a conflict with the scheduled exam date, you should not take this course.

## **TUTORING**

Jason Bailey (jmb594@nyu.edu) is the tutor for this course. He will be holding office hours on Mondays 6:30-7:30pm in Puck 3024, and also by appointment (please contact him directly).

## **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. Wagner's academic code can be found here: <http://wagner.nyu.edu/current/policies/index.php>

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 Memos:** If submitting as a team, 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**

### **WEEK 1**

#### **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.

##### Recommended review of prerequisite micro skills:

Gruber questions: 2.2, 2.3, 2.8, 2.10, 2.11. Answers are posted on blackboard. If you have difficulty with these, please see the tutor.

### **WEEK 2**

#### **Introduction to Taxation**

##### Required Readings:

Gruber: (18) Taxation in the United States and Around the World.

The President's Advisory Panel on Federal Tax Reform, "Chapter 1 – The Case for Reform" *Final Report*, November 2005.

##### Supplemental Readings:

Alm, James, "What is an "Optimal" Tax System?" *National Tax Journal* 49(1), March 1996, 117-133.

Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979-2003*, December 2005.

Slemrod, Joel and Jon Bakija, *Taxing Ourselves: A Citizen's Guide to the Debate Over Taxes, Third Edition*, Cambridge: MIT Press, 2004. This is on reserve in the library.

### **WEEK 3**

#### **Tax Incidence and Efficiency**

##### Required Readings:

Gruber: (19) The Equity Implications of Taxation: Tax Incidence, including appendix, (20) Tax Inefficiencies and Their Implications for Optimal Taxation.

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

##### Supplemental Readings:

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

##### Assignment 1 is due in class

Gruber questions: 3.7, 3.12, 18.1, 18.7, 18.11, 19.2, 19.9, 20.1, 20.2.

## **WEEK 4**

### **The Effect of Taxes on Labor Supply and Saving**

#### Required Readings:

Gruber: (21) Taxes on Labor Supply, (22) Taxes on Savings.

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.

#### Supplemental Readings:

Orszag, Peter R., "Progressivity and Saving: Fixing the Nation's Upside-down Incentives for Saving," Testimony Before the House Committee on Education and the Workforce, February 25, 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.

## **WEEK 5**

### **The Effect of Taxes on Risk-Taking and Wealth; Corporate Taxation**

#### Required Readings:

Gruber: (23) Taxes on Risk Taking and Wealth, (24) Corporate Taxation.

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.

#### Supplemental Readings:

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

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.

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

#### Assignment 2 is due in class

Gruber questions: 19.15, 21.7, 21.8, 21.10, 22.1, 22.4, 22.9.

## **WEEK 6**

### **Fundamental Tax Reform**

#### Required Readings:

Gruber: (25) Fundamental Tax Reform.

The President's Advisory Panel on Federal Tax Reform, "Chapter 5 - The Panel's Recommendations" *Final Report*, November 2005.

Auerbach, Alan J., "The Tax Reform Panel's Report: Mission Accomplished?" *The Economists' Voice* 3:1, 2006.

Slemrod, Joel, "Income Creation or Income Shifting? Behavioral Responses to the Tax Reform Act of 1986" *American Economic Review* 85(2), May 1995, 175-180.

#### Supplemental Readings:

Congressional Budget Office, *The Economic Effects of Fundamental Tax Reform*, July 1997.

Council of Economic Advisers, "Chapter 5 – Tax Policy for a Growing Economy," *Economic Report of the President*, 2003.

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

Burman, Leonard E. and William G. Gale, "The Tax Reform Proposals: Some Good Ideas, but Show Me the Money" *The Economists' Voice* 3:1, 2006.

## **WEEK 7**

### **Review of Market Failures; Cost-benefit Analysis**

#### Required Readings:

Gruber: (5) Externalities: Problems and Solutions, (7) Public Goods, (8) Cost-Benefit Analysis.

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.

#### Supplemental Readings:

Joseph Persky, "Cost-Benefit Analysis and the Classical Creed", *Journal of Economic Perspectives* 15(4), Fall 2001, 199–208.

Tax reform memo is due in class

## **WEEK 8**

### **Social Insurance**

#### Required Readings:

Gruber: (12) Social Insurance: The New Function of Government, (14) Unemployment Insurance, Disability Insurance and Workers' Compensation.

#### Supplemental Readings:

Feldstein, Martin, "Rethinking Social Insurance," *American Economic Review*, 95(1), March 2005, 1-24.

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

#### Assignment 3 is due in class

Gruber questions: 23.8, 24.2, 5.15, 8.8, 8.13, 8.15

## **WEEK 9**

### **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.

Council of Economic Advisers, "Chapter 4 – Improving Incentives in Health Care" *Economic Report of the President*, 2006.

#### Supplemental Readings:

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

## **WEEK 10**

### **Income Distribution and Welfare Programs**

#### Required Readings:

Gruber: (17) Income Distribution and Welfare Programs

Blank, Rebecca M., "Was Welfare Reform Successful?" *The Economists' Voice* 3:4, 2006.

#### Supplemental Readings:

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

#### Assignment 4 is due in class

Gruber questions: 12.3, 12.12, 15.10, 16.7, 17.6, 17.16

**WEEK 11**  
**Exam – in class**

**WEEK 12**  
**Social Security**

Required Readings:

Gruber: (13) Social Security.

Council of Economic Advisers, “Chapter 3 – Saving for Retirement” *Economic Report of the President*, 2006.

Trustees of the Social Security and Medicare Trust Funds, *Summary of the 2006 Annual Social Security and Medicare Trust Fund Reports*, 2006.

Supplemental Readings:

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.

**WEEK 13**  
**Government Budgets**

Required Readings:

Gruber: (4) Tools of Budget Analysis.

Auerbach, Alan J., William G. Gale and Peter R. Orszag, “The Budget: Plus Ça Change, Plus C’est La Même Chose” *Tax Notes*, 17 April 2006, 349-364. Focus on the introduction, section III, and conclusion.

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.

Supplemental Readings:

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.

Congressional Budget Office, “Chapter 1 – The Budget Outlook” *The Budget and Economic Outlook: Fiscal Years 2007 to 2016*, January 2006.

Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2007*, February 2006, and *Mid-Session Review, Budget of the United States Government, Fiscal Year 2007*, July 2006.

## **WEEK 14**

### **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.

Gramlich, Edward M. "A Policymaker's Guide to Fiscal Decentralization" *National Tax Journal*  
46(2) June 1993, 229-235.

#### Supplemental Readings:

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

Yinger, John, "State Aid and the Pursuit of Educational Equality: An Overview" Chapter 1 in  
*Helping Children Left Behind: State Aid and the Pursuit of Educational Equity*, MIT  
Press, 2004

Fischel, William A., "Capitalization and Home Values: An Introductory Explanation" *State Tax*  
*Notes Magazine* 24, May 6, 2002, 507.

Social Security memo is due in class

### Lecture Schedule and Deadlines for Submission of Written Work

		<b>Prof. Sherlock Tuesdays 6:20-8pm</b>		<b>Prof. Chan Wednesdays 1-2:40pm</b>	
1	Introduction to Public Finance	5 Sep		6 Sep	
2	Introduction to Taxation	12 Sep		13 Sep	
3	Tax Incidence and Efficiency	19 Sep	Assignment 1	20 Sep	Assignment 1
4	Taxes: Labor Supply and Saving	26 Sep		27 Sep	
5	Taxes: Risk Taking and Wealth; Corporate	3 Oct	Assignment 2	4 Oct	Assignment 2
6	Fundamental Tax Reform	10 Oct		11 Oct	
7	Market failures; Cost-benefit Analysis	17 Oct	Tax reform memo	18 Oct	Tax reform memo
8	Social Insurance	24 Oct	Assignment 3	25 Oct	Assignment 3
9	Health Insurance	31 Oct		1 Nov	
10	Income Distribution and Welfare Programs	7 Nov	Assignment 4	8 Nov	Assignment 4
11	<b>EXAM</b>	14 Nov		15 Nov	
12	Social Security	21 Nov		29 Nov	
13	Government Budgets	28 Nov		6 Dec	
14	State and Local Public Finance	5 Dec	Social Security memo	13 Dec	Social Security memo

## 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.