Fall 2023

EC761
Topics in Public Economics

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This class provides an overview over the field of Public Economics with an emphasis on designing the tax and transfer system. We will cover in some depth optimal income taxation and transfer programs. On the theoretical side we will cover basic insights from traditional optimal taxation theory. Recent work in public finance has developed towards models where relevant welfare parameters are summarized in 'sufficient statistics' which can often directly estimated in the data using natural experiments for identification. We will cover this approach in detail and carefully discuss advances on the empirical side made in recent years.

The course has several goals: 1) to provide a deep understanding of theoretical, empirical, and policy considerations in the area of public economics, 2) to develop solid understanding how theory and empirics can be combined in useful ways to provide deeper insights, and 3) to offer practice in understanding and criticizing empirical research. 4) To begin developing a research proposal for a paper in public economics or in an area where public economics interacts with other fields, such as Development, Labor, Environmental, or Health.

The course will consist of a series of classes, which are going to be a combination of lectures, class discussions and student presentations. There will be two problem sets to build some technical skills, three referee reports and students are required to develop a research proposal. This proposal should consist of a theoretical and empirical part and the last version should clearly describe the question, the model, explain the empirical method and data, but does not have to include empirical results.

Evaluation: There are three components to the grade. First, there is your paper proposal, which is worth the 60% of your grade. Second, you will have three response papers (referee reports) to write (20%). Finally, there will be three problem sets, also worth 20% of the grade.

To summarize:

- Paper proposal: 60% of overall course grade
- Response papers (3) – 20%
- Problem sets (3) – 20%

Research Proposal: We require a research proposal, which serves both as a review of a specific topic of particular interest to you and as an exercise to help prepare you for the research process needed to develop and complete a PhD thesis successfully. This exercise is structured in three different milestones.

- Come up with at least 4 research questions and describe them on about ½ page each, so we can talk with you about them and discuss which one seems most promising. This is worth 20% of your paper proposal grade.
- Identify a topic of interest to you and develop an understanding of the current state of research in that area. This paper should include a thesis statement (what you want to add to the literature), 2 to 4 pages describing the literature and a bibliography. This is worth 20% of your proposal grade.
- Describe the analysis you propose to develop and identify the data that are available to complete the analysis you propose. If this is largely a theoretical exercise, identify key variables or parameters that will drive the results based on the existing models as well as your original thoughts on how to improve it. This should be quite precise. If you are completing an empirical exercise, describe the statistical model and estimation technique you think is appropriate, confirm what da-ta will be used to estimate the model, discuss potential sensitivity analyses. This is worth 60% of your proposal grade.

Problem Sets: There are 3 problem sets to get you some practice with the models and methods we discuss in this class.

Response papers: In the spirit of trying to get you thinking about the gaps and shortcomings in existing research, and how you might go about filling some of them in, a significant portion of the grade will come from response papers, which will serve as a sort of referee report for one of the main papers we will discuss (or a paper that is provocative in some other way).

1. Optimal Income Taxation – Theory and Evidence – Week 1&2
2. Optimal Transfers – Theory and Evidence – Week 3&4
3. Frictions and Bunching – Week 5
4. The Marginal Value of Public Funds – Week 6
5. Tax Evasion and Enforcement – Week 7
6. Taxes in Developing Countries – Week 8
7. Taxes and Migration – Week 9
8. Tax Incidence – Week 10
9. Retirement and Social Security – Week 11
10. Disability Insurance – Week 12

Literature

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