

**HARRIS SCHOOL
UNIVERSITY OF CHICAGO**

PPHA 34230
Spring 2012

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Public Finance and Public Policy 2

Course Description: This course analyzes the rationales for government intervention in the economy, the form that intervention takes, and the effects of government policy. In terms of theory, the course will cover public goods and the incidence and deadweight loss of taxation, income redistribution, and the role of empirical evidence in public finance. It will cover welfare and social insurance programs, including unemployment insurance, disability insurance, and social security. On the tax side, it will cover income and payroll taxation, estate taxation and labor supply responses to taxes. Given current policy debates we will emphasize social security reform and income tax reform.

Prerequisites: PPHA 323, 324 or intermediate microeconomics.

Lectures: Wednesday 3-5:50 in 289B.

Office Hours: Tuesday 9:00-10:00, Thursday 1:30-2:30

Grading: Grades will be based on in class participation, one midterm exam, several homework sets, and a cumulative final exam. The weights will be 10% on in class participation, 30% on the midterm, 15% on the homeworks, and 45% on the final. The exams are scheduled for the following dates:

MIDTERM - Wednesday, May 9, 2012.

FINAL - Wednesday, June 6, 2012.

There will be no make-up exams. Some sample exams will be posted on chalk.

Texts and Readings:

The required texts are *Public Finance and Public Policy*, Third Edition, by Jonathan Gruber (Worth, 2011) and *Taxing Ourselves: A Citizen's Guide to the Great Debate over Taxes*, Fourth Edition, by Joel Slemrod and Jon Bakija (MIT, 2008).

I also recommend *Public Finance*, Ninth Edition, by Harvey S. Rosen and Ted Gayer (McGraw Hill, 2010). The readings listed from Rosen and Gayer are an alternative to the Gruber readings, but one text or the other is sufficient. Earlier editions of this book are fine since the theory hasn't changed, but the chapter numbering is slightly different. Other required readings will be on the chalk site.

A list of topics, readings and tentative schedule follows. In the reading list, G refers to the Gruber text, RG refers to the Rosen and Gayer text, SB refers to Slemrod and Bakija. All other readings are on the chalk site.

Part One: Introduction and Tools

I. Introduction: The role of government in a market economy; welfare economics.

G, chapters 1-2.

RG, chapter 3.

II. Empirical tools of public finance.

G, chapter 3.

Meyer, Bruce D., W. Kip Viscusi and David Durbin (1995): "Workers' Compensation and Injury Duration: Evidence from a Natural Experiment," *American Economic Review* 85, 322-340.

III. Market failure: public goods.

G, chapter 7.

RG, chapter 4.

Part Two: Redistribution and Social Insurance.

IV. Income distribution and welfare programs.

G, chapters 17 and 21.3.

RG, chapters 12 and 13.

Meyer, Bruce D. (2010): "The Effects of the EITC and Recent Reforms," in Tax Policy and the Economy 24, edited by Jeffrey Brown, M.I.T. Press, 153-180.

V. Social insurance I: Insurance, social security, unemployment insurance, disability insurance.

G, chapters 12, 14.

RG, chapter 13.

Schmieder, Johannes F., Till von Wachter, and Stefan Bender (2012): "The Effects of Extended Unemployment Insurance Over the Business Cycle: Evidence from Regression Discontinuity Estimates over Twenty Years," forthcoming, *Quarterly Journal of Economics*.

VI. Social insurance II: Social security.

G, chapter 13.

RG, chapter 11.

Diamond, Peter A. and Peter R. Orszag (2004): *Saving Social Security: A Balanced Approach*, Chapter 8, Brookings Institution Press.

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

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

Gruber, Jonathan and David A. Wise (1999): "Introduction and Summary," in *Social Security Programs and Retirement around the World*, edited by Jonathan Gruber and David A. Wise. Chicago: University of Chicago Press.

Part Three: Taxation in Theory and Practice

VII. Incidence and excess burden of taxation.

G, chapters 19 and 20.1

RG, chapters 14 and 15.

VIII. The federal personal income tax.

G, chapter 18 and 21.

RG, chapters 17 and 18.

SB, chapter 5.

Goolsbee, Austan (2000): "What Happens When You Tax the Rich? Evidence From Executive Compensation," *Journal of Political Economy* 108(2): 352-78.

IX. Optimal income taxation and tax reform.

G, chapter 20.3, 25

RG, chapter 16, 21.

SB, chapters 6-9.

Diamond, Peter and Emmanuel Saez (2011): "The Case for a Progressive Tax: From Basic Research to Policy Recommendations," *Journal of Economic Perspectives* 25 (Fall 2011): 165-190.

X. Estate taxation, course review.

G, chapter 23.3.

RG, chapter 21.

Holtz-Eakin, Douglas, Harvey S. Rosen, and David Joulfaian (1993): "The Carnegie Conjecture: Some Empirical Evidence," *Quarterly Journal of Economics* 108: 413-436.