Public Economics 230B: Lecture Schedule Spring 2010

This course covers material on (I) labor income taxation: behavioral responses to taxes and transfers, optimal income taxation and redistribution, (II) Social Insurance, (III) Capital income taxation and redistribution.

Syllabus, reading list, papers, problem sets, and lecture slides are all posted on bspace.

Class meetings: Mondays 10am-12pm, Room 639 Evans Hall

Prerequisites: First year graduate microeconomics (Economics 201A,B), First year graduate econometrics (Economics 240A), and first public sector microeconomics class 230A.

Requirements: Two problem sets (20% of the grade), one referee report (10% of the grade). Final examination is on Tuesday May 11, 3-6pm, (70% of the grade).

Section I: Labor Income Taxation and Redistribution

IA: Theoretical Aspects: Optimal Income Taxation and Redistribution

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<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>1</td>
<td>January 25</td>
<td>Problem of redistribution and current US income tax and transfers</td>
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<tr>
<td>2</td>
<td>February 1</td>
<td>Optimal income taxation</td>
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<td>3</td>
<td>February 8</td>
<td>Optimal transfer programs</td>
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IB: Empirical Aspects: Behavioral Responses to Taxes and Transfers

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<tr>
<td>4</td>
<td>February 22</td>
<td>Labor supply responses to taxation</td>
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<td>5</td>
<td>March 1</td>
<td>Responses to welfare programs and the EITC</td>
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<td>6</td>
<td>March 8</td>
<td>Response of taxable income to tax rates</td>
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<td>7</td>
<td>March 15</td>
<td>Tax evasion and tax enforcement</td>
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Section II: Social Insurance

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<tr>
<td>8</td>
<td>March 29</td>
<td>General theory of social security programs</td>
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<td>9</td>
<td>April 5</td>
<td>Social security: retirement and savings decisions</td>
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Section III: Capital Income Taxation and Redistribution

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<tr>
<td>10</td>
<td>April 12</td>
<td>Stylized facts on Savings and Capital Income Taxation</td>
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<tr>
<td>Date</td>
<td>Topic</td>
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<td>Apr 19</td>
<td>Optimal Capital Income Taxation</td>
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<td>Apr 26</td>
<td>Tax subsidies to savings: IRAs and 401(k)s</td>
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230B - Public Economics II

Spring 2010

Bold: required reading
*: reading emphasized in class

0. GENERAL REFERENCES:


Background Reading: Most popular undergraduate textbooks in Public Economics and Taxation (Useful for a simple description of the U.S. tax system and the main government programs)


References on Empirical Methods:


I. LABOR INCOME TAXATION AND REDISTRIBUTION

NORMATIVE ASPECTS: OPTIMAL INCOME TAXATION AND REDISTRIBUTION

A. Optimal Income Taxation in the Mirrlees Model


G. Laroque, 2005 “Indirect taxation is superfluous under separability and taste homogeneity: A simple proof”, Economic Letters, 87, 141-144.


### B. The Design of Optimal Transfer Programs


C. Optimal Taxes and Behavioral Economics


EMPIRICAL ASPECTS: BEHAVIORAL RESPONSES TO TAXES AND TRANSFERS

A. Labor Supply Responses to Taxation

Classical Studies:


Labor Supply and Behavioral Economics


Recent Macro-Economic Studies of Labor Supply and Taxes


B. Responses to Welfare Programs and the EITC


**R. Chetty and E. Saez “Information and Behavioral Responses to Taxation: Evidence from an Experiment with EITC Clients at H&R Block”, Working Paper, January 2009**


**C. The response of high incomes to taxation**


D. Tax Implementation, Tax Evasion, and Tax Enforcement


**II. SOCIAL INSURANCE**

**Overview and General References**


**SOCIAL SECURITY AND RETIREMENT DECISIONS**

**A. Theory**


C. Mulligan and X. Sala-i-Martin “Social Security in Theory and Practice,” NBER WP
7118-7119, 1999


B. Consumption and Savings Effects


**C. Labor Supply Effects**


* M. Feldstein and J. Lieberman, “Social Security,” sections 5.2 and 5.3


J. Gokhale and L Kotlikoff, “Social Security’s Treatment of Postwar Americans,” NBER Working Paper 6603,

**J. Gruber and D. Wise, Social Security Programs and Retirement Around the World** NBER Volume, 1997.


J. Liebman, “Redistribution in the Current U.S. Social Security Program,” NBER WP 8635


**D. Social Security Reform**


L. Kotlikoff et al. “Finding a Way Out of America’s Demographic Dilemma,” NBER WP 8258


INCOME SECURITY PROGRAMS

A. UNEMPLOYMENT INSURANCE

a. Theory: Optimal Level of UI


b. Empirical Evidence: Worker Behavior


c. Empirical Evidence: Firm Behavior


B. WORKER'S COMPENSATION


C. DISABILITY INSURANCE


III. CAPITAL INCOME TAXATION AND SAVING

EMPIRICAL ASPECTS: TAXATION, SAVINGS AND BEQUESTS

A. Bequests and Life-Cycle Savings


Modigliani, F. “The Role of Intergenerational Transfers and Life-cycle Savings in the Accumulation of Wealth”, Journal of Economic Perspectives 1988

B. Targeted Tax Subsidies to Saving


**J. Poterba, S. Venti, and D. Wise, "How Retirement Saving Programs Increase Saving," Journal of Economic Perspectives 10 (Fall 1996), 91-112.**


C. Information, Peer effects, and Behavioral Effects in Retirement Savings


NORMATIVE ASPECTS: OPTIMAL CAPITAL INCOME TAXATION


A. Infinite Horizon Models


### B. Overlapping-Generation Models


C. New Dynamic Public Finance


D. Taxation of Capital with Uninsurable Income Risk and Borrowing Constraints


T. Piketty, “Theories of Persistent Inequality and Intergenerational Mobility”, in *Handbook of Income Distribution* (Chapter 8, pp.429-476), Eds. Tony Atkinson and François Bourguignon, North-Holland, 2000