Public Finance, Taxes & Means-Tested Transfers  
ECON 881.30 & 881.31 – Fall 2019

Instructors:  
Juan Carlos Suárez Serrato  
235 Social Sciences  
Office Hours: Wed 3-4 p.m.  
jc@jcsuarez.com  

V. Joseph Hotz  
243 Social Sciences  
Office Hours: Mon, 1-3 p.m.  
v.joseph.hotz@duke.edu

Location and Meeting Times:  
4:40-5:55 PM at Social Sciences 111.

Course Description:  
This course introduces students to the field of public finance at the PhD level. The course gives students a summary of classic topics in public finance, a critical overview of recent contributions, and addresses practical methodological issues with the goal of fostering students’ research. The topics covered include the design of taxation, unemployment insurance, and government spending, as well as the effects of public intervention on economic behavior including labor supply and firm investment.

Grading:  
1. Class Participation and Reading Comments  20%  
2. Problem Sets (6)  25%  
3. Class Project and Presentation  15%  
4. Midterm and Final Exams  20% Each

Paper Presentations  
All students are expected to read all of the papers and actively participate in each class. To facilitate this, all students are expected to prepare slides on selected readings. On these selected class meeting, a student will be randomly selected to lead the discussion of a paper. The presentations should be short but should feature the main frameworks and evidence in the papers. As a guideline, the presentations should address the following features of each paper (1) what is the research question, (2) why the question is of interest, (3) why is this question hard to answer, (4) what do the researchers do to answer the question, (5) what do the authors find, and (6) how this paper relates to other in the literature and how it contributes to the literature. While these six features of a paper should be discussed, these features should be a guide and presenters should refrain from following a formulaic approach to addressing these points, such as just copying or paraphrasing sections of the paper in your slides. The presentations also should include observations about empirical or theoretical methods, suggestions for applications of models with different data, or identification strategies that can be used to identify these models.

Problem Sets  
6 problem sets will be assigned to help students attain a better grasp of the material discussed in class and to help them develop their own analytic skills. They will cover a mix of empirical and theoretical content. Completion of the empirical content of these problem sets requires knowledge of STATA. When
submitting solutions to the problems sets, students should include do files, log files, tables, and discussion of results.

**Research Proposal**
The final assignment is a research proposal outlining a project (about 5-6 pages) that applies the concepts developed in the course. The project should focus on answering an important question and should include a model, data to be used, and a potential identification strategy. Students will present their proposal during the last class meeting. Students are encouraged to meet with the instructors to discuss their projects early in the course.

**Midterm and Final Exams**
The exams are intended as rehearsals for the field exams. The midterm exam will be held in class. The Final exam will cover the material and will be take-home.

**University Policies**
Grading: [http://registrar.duke.edu/faculty-staff/grading](http://registrar.duke.edu/faculty-staff/grading)
Disabilities: [http://access.duke.edu/students/faculty.php](http://access.duke.edu/students/faculty.php)

**Student Feedback**
We would like to continue improving the course and welcome student feedback in person or via email. If you would rather send an anonymous comment, we encourage you to do so by filling out this anonymous form: [http://www.jcsuarez.com/teaching_comments.html](http://www.jcsuarez.com/teaching_comments.html).

**Class Material**
The course is mostly based on published and working research papers. We will complement this material with background readings from books. Below, we provide additional useful references:

**On public economics:**
- J. Gruber. *Public Finance and Public Policy*

**On taxes and transfers and their effects on labor supply and related outcomes:**

**On the effects of social and mean-tested programs on labor supply and other outcomes:**


**On applied econometrics:**

• *Mostly Harmless Econometrics: An Empiricist’s Companion* by Angrist and Pischke
• *Microeconometrics Using Stata* by Cameron and Trivedi
• *Discrete Choice Methods with Simulation* by Train
  [http://eml.berkeley.edu/books/choice2.html](http://eml.berkeley.edu/books/choice2.html)

**On economic analysis:**

• *Economics and Consumer Behavior* by Angus Deaton, John Muellbauer
• *Optimization in Economic Theory* by Avinash K. Dixit
• *Microeconomic Analysis* by Hal Varian
Tentative Course Schedule

**NOTE:** Readings with *’s in schedule below should be read before class and will be discussed.

**Class Meeting: 1. August 26, 2019. Instructor: Juan Carlos Suarez Serrato.**
**Topic: Introduction, Role for Public Intervention, and Excess Burden**


**Class Meeting: 2. August 28, 2019. Instructor: Juan Carlos Suarez Serrato.**
**Topic: Tax Incidence in Partial Equilibrium**

Salanie, B. (2011) *The Economics of Taxation*, Chapter 2
[https://search.library.duke.edu/search?id=DUKE005197087](https://search.library.duke.edu/search?id=DUKE005197087)


**Class Meeting: 3. September 2, 2019. Instructor: Juan Carlos Suarez Serrato.**
**Topic: Tax Incidence in Partial Equilibrium**


**Class Meeting: 4. September 4, 2019. Instructor: Juan Carlos Suarez Serrato.**
**Topic: Optimal Commodity Taxation**

→ **Problem Set #1 Due by Start of Class**

Auerbach and Hines, Section 3.
Chetty “Sufficient Statistics” Sections 3 and 6.


Class Meeting: 5. September 9, 2019. Instructor: Juan Carlos Suarez Serrato.
Topic: Tax Incidence in General Equilibrium

Anthony B. Atkinson & Joseph E. Stiglitz, Lecture 6


Topic: Trends in Taxation

Handouts on “Labor Supply Trends and Trends & Patterns in U.S. Tax Rates & Deductions.” (see course site on Sakai)


Topic: Overview of Static Models of Labor Supply

Handouts on Static Labor Supply.


Topic: Labor Supply Responses to Taxation: Modeling Non-linear Budget Sets


or


https://eml.berkeley.edu/~saez/saezAEJ10bunching.pdf

Topic: Labor Supply Responses to Taxation: Natural Experiment Approaches


or


Topic: Effects of Marginal Tax Rates on Taxable Income

Problem Set #2 Due by Start of Class


Handout on Life Cycle Labor Supply Models;


Class Meeting: 12. October 2, 2019. Instructor: N/A. Topic: Midterm #1

Class Meeting: 13. October 7, 2019. Instructor: N/A. Topic: No Class (Fall Break)


Chapter 7 in Salanie

Auerbach and Hines, Section 4.
https://www.aeaweb.org/articles?id=10.1257/aer.98.3.1103

Topic: Effects of Taxes on Labor Supply, Savings & Human Capital Formation


Topic: Effects of Taxes on Labor Supply, Savings & Human Capital Formation (cont.)

Readings: same as for Meeting 15.

Topic: Effects of Cash- and Tax-Based Transfers Programs on Labor Supply: Intro

→ Problem Set #3 Due by Start of Class


Topic: Effects of Tax Credits: The EITC


Topic: Effects of Cash- and Tax-Based Transfers Programs: Multiple & Overlapping Programs


Topic: Optimal Taxation


**Class Meeting: 21. November 4, 2019. Instructor: Juan Carlos Suarez Serrato.**

**Topic: Public Goods**

→ **Problem Set #4 Due by Start of Class**

Anthony B. Atkinson & Joseph E. Stiglitz, Lectures 16 and 17


**Class Meeting: 22. November 6, 2019. Instructor: Juan Carlos Suarez Serrato.**

**Topic: Social Insurance, Adverse Selection, and Unemployment Insurance**


Chetty “Sufficient Statistics” Section 5.


Class Meeting: 23. November 11, 2019. Instructor: Juan Carlos Suárez Serrato

Topic: Social Insurance: Health

→ Problem Set #5 Due by Start of Class

Section 2 of Chetty, Raj and Amy Finkelstein. 2013.


Topic: Corporate Taxation

Anthony B. Atkinson & Joseph E. Stiglitz, Lecture 5


Topic: Corporate Taxation

→ Problem Set #6 Due by Start of Class

https://www.aeaweb.org/articles?id=10.1257/aer.20140855
