SYLLABUS: Public Finance
Module 1, Fall 2013
Professor: Estelle P. Dauchy
New Economic School
Email: edauchy@nes.ru

Course information
Office Hours: By appointment.
Class Time: TBA
Room Number: TBA
TA: Alexander Tonis

Course description
This is the first of two courses in the graduate public economics sequence at the New Economic School. This one-module course explores how economists think about government revenue collection – how governments raise public money. We will cover issues in the optimal design of tax policy, with an emphasis on combining theoretical models with empirical evidence. The course will make extensive use of microeconomic and econometric models. Public taxation is approached both normatively and positively. We will explore efficiency costs of taxation, tax incidence (i.e., how the burden of taxation is distributed across economic agents), how taxes affect the economic behavior of individuals and firms, income taxation and labor supply, and taxation of international income. Depending on time and preferences, the course will also introduce issues in behavioral public finance and/or some important political aspects of taxation, such as options to reform the tax system. The course will cover the theory of public finance in depth, but the primary aim will always be to apply the concepts to real world tax policies. Toward that end, we will spend substantial time, both inside and outside of the classroom, applying the concepts and reviewing existing empirical evidence. In this context we will use examples mostly drawn from the US, but also draw frequent comparisons with other countries.

Course requirements, prerequisites, grading, and attendance
This course is intended for second year and upper-level graduate students in the economics program. The requirements are active class participation, short class assignments (or “weekly responses”), one (or two, depending on option, as explained below) term paper and presentation thereof. Class participation and class assignments will account for 50% of the final grade, and the paper(s) and presentation for 50%. There will be no in-class examination.

- Attendance and participation are mandatory and part of the grading system (see below). Students are allowed to miss up to 2 classes over the module. Under exceptional circumstances, students who cannot attend more classes should contact me with a valid proof.

- The short class assignments will consist in one (or two) question(s) that will be announced to students the week before and posted on mynes. Students will have to hand in their responses, which should be 250 words or less. Class discussion on the due date or during the following class will address the topic of the question, and you may be invited to defend your response and comment on other students’ responses. Responses handed in after 2:00PM [TBU] on the Monday due date will receive no credit, and students are allowed to skip 1 weekly question. A random selection of weekly responses will be graded, and each student will be assured of having at least four responses graded during the course.
For the paper(s) requirement, students have two options: two short papers or one longer paper. If students chose the first option, the two papers should be no longer than 1000 words. Under the first option, the papers may be either a broader review of the main theoretical or empirical methodologies and results of one of the general topics presented in class, or a careful, detailed proposal to do original research in public economics which identifies and explores an unanswered problem in taxation. Under this option, however, at least one of the two papers should be the latter (i.e., the detailed proposal for research). Under the second option (the single but longer paper), the paper should be no longer than 3,000 words. If students chose the second option, the paper must be a detailed and careful research proposal but also include a brief overview of the literature. The papers should (i) state the problem, (ii) explain how the problem relates to other solved problems and how it is different, (iii) defend why it is important enough to warrant attention, (iv) sketch out how a solution might be obtained, (v) state likely theoretical or empirical problems to be overcome, (vi) write concluding remarks. The longer paper under the second option should go beyond speculating about the final results and make some initial progress towards an answer (either empirically, using data, or theoretically).

Under the first option, the first paper is due on September 23, and the second paper is due on October 14. Under the second option, a one-page description and outline of your paper is due on September 23, and the completed paper is due on October 14. One of the two papers under option 1 and the single paper under option 2 must be presented in class (during no more than 15 minutes, plus 5 minutes for discussion).

To take this course, students should have a good knowledge of microeconomics (at the intermediate level) and econometrics. Applied microeconomics is recommended.

Topics

The following is a tentative breakdown of the topics covered, although we may change the ordering depending on revealed preferences and time.

I- The Normative Theory of Taxation—Efficiency
   1. Excess burden of taxation
   2. Optimal commodity taxation—static version
   3. Optimal commodity taxation—dynamic version
   4. Optimal tax systems

II- Normative Theory of Taxation—Equity and Efficiency
   1. Tax incidence
   2. Horizontal equity
   3. Vertical equity and optimal progressivity

III- Behavioral Effect of Taxation: Theory and Empirical Evidence
   A- Individuals
      1. Labor supply
      2. Savings and bequests
      3. Tax evasion
      4. Timing
      5. Elasticity of taxable income
   B- Corporations
      6. Investment
      7. Corporate finance
      8. Income shifting / transfer pricing
      9. International investment
IV- Other issues in public finance (if time permits)
   1. Behavioral public finance, or
   2. Tax reform

Readings

Most of the readings are from peer-reviewed journal articles, which are available on the online library system. The list of these articles will be directly provided to students in two or three batches during the course. The list of readings will generally be larger than what students are expected to read during the module. Some of these readings will be required (marked with a *), while the others will be recommended (marked with a &), or suggested if you plan to write your paper on a given topic.


Note: You can find the full text online at: http://www.sciencedirect.com/science/handbooks/15734420

Students may also find introductory and intermediate textbooks very useful to understand basic public finance concepts that the course will take for granted:

Public Economics, by Gareth D. Myles (Cambridge University Press, 2010): 10 copies at the library, and several version of older editions.

Additional materials

Further material for this course will be available on mynes. Examples of data sources:

U.S:  
http://www.bea.gov/national/index.htm  
http://taxpolicycenter.com/  
http://fedworld.ntis.gov/  
http://www.whitehouse.gov/omb/budget/Historicals

Others:  
http://www.oecd.org/tax/tax-policy/oecdtaxdatabase.htm

Good blogs on taxation:  
http://taxprof.typepad.com/  
http://taxfoundation.org/blog  
http://www.bus.umich.edu/otpr/
Sample weekly question for course evaluation

Although recent research for estimating the behavioral response to taxation has favored utilizing panel data to implement a difference-in-difference technique, Emmanuel Saez argued that analyzing disaggregated time series is an equally good, or perhaps better, way to learn about the elasticity of taxable income (NBER Working Paper #102273, 2004). Is he right? Critically evaluate his criticisms of using panel data and his arguments for his preferred method.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.