

New York University
Robert F. Wagner Graduate School of Public Service
P11.2140 Public Economics and Finance, Fall 2005
Tuesdays 6:20-8:00 pm, Silver 711

Professor Jason Furman

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COURSE OBJECTIVES & PREREQUISITES

Public finance (also known as public economics) analyzes the impact of public policy on the allocation of resources and the distribution of income in the economy. In this course, you will learn how to interpret economic analyses and how to use the tools of microeconomics and empirical analysis to investigate and predict the effects of public expenditures, regulation and government revenue-raising activities.

Prerequisites are:

P11.1011 Statistics

P11.1018 Microeconomics

P11.1021 Financial Management.

This course requires a working knowledge of the material learned in these prerequisite courses. Students should be prepared to review and reference their books and notes from these prerequisite classes throughout the semester – the prerequisite material will not be reviewed in class.

BLACKBOARD & E-MAIL

You must have access to the class Blackboard site at <http://classes.nyu.edu/>

All announcements and class related documents (extra readings, discussion questions, class handouts, answers to assignments etc.) will be posted here. Your NYU net account must be activated to access Blackboard (go to <http://start.nyu.edu> for details) .

Some class announcements will be distributed via NYU e-mail. Thus, it is important that you actively use your NYU e-mail account, or have appropriate forwarding set up on NYUHome <https://home.nyu.edu/>.

READINGS

Books:

Jonathan Gruber, *Public Finance and Public Policy*, Worth Publishers, 2005.

Other readings:

Other readings will be posted on Blackboard or distributed in class.

COURSE REQUIREMENTS

Class Preparation:

Required readings should be done before the class for which they are listed.

Class Participation (5 percent):

Your participation in class discussion is expected.

Ten Written Assignments (20 percent):

A series of end-of-chapter problems are assigned from Gruber. Details are posted on Blackboard. It is essential that you master these problems in order to learn the material. You will receive credit if you make a good faith effort to solve all of the problems in each assignment and turn in the assignment on time. Please make a copy of your assignment before turning it in. Solutions will be posted on Blackboard.

Policy Exercise (15 percent):

There will be one policy exercise which can be completed individually or in teams of two (both team members will receive the same grade). Details will be discussed in class. To receive any credit, the exercise must be turned in on time.

Exams (60 percent):

There will be an in-class midterm and a final exam, each worth 30 percent of the grade. There are no make-ups. If you have a conflict with the scheduled exams dates, you should not take this course.

TUTORING

Charlie Parekh (charles.parekh@nyu.edu) is available to review concepts and answer questions (time and location TBA). You do not need an appointment, however, it would be helpful to e-mail Charlie in advance as to what questions or concepts you would like to review.

STATEMENT OF ACADEMIC INTEGRITY

As members of the NYU Wagner community, we are all expected to adhere to high standards of intellectual and academic integrity. An example of how NYU describes academic integrity is available at <http://www.nyu.edu/cas/map/integrity.pdf>. This is a good resource for issues of academic honesty. For this particular course, there are some specific behaviors required to meet our standards of academic integrity:

Assignments: While we strongly encourage all students to work in groups, the final write up of assignments must be done individually with no sharing of written answers.

Policy Exercise: If this is a team submission, all members of the team must contribute to the joint effort. There must be no free-riding.

Exams: All exams must be the sole work of the individual student.

Violations of these standards will automatically result in failure of the course and remand to the discipline committee for further action.

COURSE OUTLINE

All required readings and all practice questions should be completed before the class for which they are listed.

WEEK 1

Introduction to Public Finance

Required Readings:

Gruber: (1) Why Study Public Finance?, (2) Theoretical Tools of Public Finance, (3) Empirical Tools of Public Finance, including appendix.

WEEK 2

Government Budgets

Required Readings:

Gruber: (4) Tools of Budget Analysis.

Congressional Budget Office, *The Budget and Economic Outlook: an Update*, August 2005.
[*Skim* the Summary (ix-xii) and Chapter 1 (1-24).]

Gale, William G. and Peter R. Orszag, "The Budget Outlook: Projections and Implications," *Economist's Voice* 1(2), 2004.

Ball, Laurence and N. Gregory Mankiw, "What do budget deficits do?," in *Budget Deficits and the Debt: Issues and Options*, Federal Reserve Bank of Kansas City, 1995, 95-119.

Optional Readings:

Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2006*, Washington, DC: Government Printing Office, 2005.

Gokhale, Jagadeesh and Kent Smetters, *Fiscal and Generational Imbalances*, Washington, DC: AEI Press, 2003.

Kotlikoff, Laurence J. "The Coming Generational Storm," Mimeo, 2001.

Auerbach, Alan J., Jagadeesh Gokhale and Laurence J. Kotlikoff, "Generational Accounting: A Meaningful Way to Evaluate Fiscal Policy," *Journal of Economic Perspectives* 8(1), Winter 1994, 73-94.

Assignment 1 is due in class.

WEEK 3

Introduction to Taxation

Required Readings:

Gruber: (18) Taxation in the United States and Around the World.

Congressional Budget Office, *Historical Effective Federal Tax Rates: 1979-2002*, March 2005.
[*Skim* this document].

Steuerle, Eugene, "Tax Reform and Fairness for Families," PowerPoint Presentation to the President's Advisory Panel on Tax Reform, March 23, 2005.

Optional Reading:

Slemrod, Joel and Jon Bakija, *Taxing Ourselves: A Citizen's Guide to the Debate Over Taxes, Third Edition*, Cambridge: MIT Press, 2004. [Note: this is not available online]

Assignment 2 is due in class.

WEEK 4

Tax Incidence and Efficiency

Required Readings:

Gruber: (19) The Equity Implications of Taxation: Tax Incidence, including appendix, (20) Tax Inefficiencies and Their Implications for Optimal Taxation.

Council of Economic Advisers, "Chapter 4 – Tax Incidence: Who Bears the Tax Burden?,"

Economic Report of the President, Washington, DC: Government Printing Office, 2004.
Feldstein, Martin, "How Big Should Government Be?," *National Tax Journal*, 50(2), June 1997, 197-213.

Optional Reading:

Gruber, Jon and Emmanuel Saez, "The Elasticity of Taxable Income: Evidence and Implications," *Journal of Public Economics*, 84, 2002, 1-32.

Assignment 3 is due in class.

WEEK 5

The Effect of Taxes on Labor Supply and Saving

Required Readings:

Gruber: (21) Taxes on Labor Supply, (22) Taxes on Savings.

Poterba, James M., Steven F. Venti and David A. Wise, "How Retirement Savings Programs Increase Savings," *Journal of Economic Perspectives*, 10(4), Autumn 1996, 91-112.

Engen, Eric M., William G. Gale and John Karl Scholz, "The Illusory Effects of Saving Incentives on Saving," *Journal of Economic Perspectives*, 10(4), Autumn 1996, 113-138.

Optional Readings:

Duflo, Esther et al, "Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block," *Retirement Security Project No. 2005-5*, 2005.

Orszag, Peter R., "Progressivity and Saving: Fixing the Nation's Upside-down Incentives for Saving," Testimony Before the House Committee on Education and the Workforce, February 25, 2004.

Assignment 4 is due in class.

WEEK 6

The Effect of Taxes on Risk-Taking and Wealth; Corporate Taxation

Required Readings:

Gruber: (23) Taxes on Risk Taking and Wealth, (24) Corporate Taxation.

Gale, William G. and Joel B. Slemrod, "Policy Watch: Death Watch for the Death Tax?," *Journal of Economic Perspectives*, 15(1), Winter 2001, 205-218.

Hubbard, R. Glenn, "Corporate Tax Integration: A View from the Treasury Department," *Journal of Economic Perspectives*, 7(1), Winter 1993, 115-132.

Optional Readings:

Chetty, Raj and Emmanuel Saez, "Do Dividend Payments Respond to Taxes? Preliminary Evidence from the 2003 Dividend Tax Cut," NBER Working Paper No. 10572, June 2004.

Gravelle, Jane, "The Corporate Tax: Where Has It Been and Where Is It Going?" *National Tax Journal*, 57(4), 2004, 903-923.

Assignment 5 is due in class.

Week 7

Fundamental Tax Reform

Required Readings:

Gruber: (25) Fundamental Tax Reform.

Readings on the President's tax reform commission to be assigned in class

Optional Readings:

Congressional Budget Office, *The Economic Effects of Fundamental Tax Reform*, July 1997.

Council of Economic Advisers, "Chapter 5 – Tax Policy for a Growing Economy," *Economic Report of the President*, Washington, DC: Government Printing Office, 2003.

Pechman, Joel, "The Future of the Income Tax," *American Economic Review*, 80(1), March 1990, 1-20.

Assignment 6 is due in class.

Week 8

Midterm Exam – in class

Week 9

Review of Market Failures; Cost-benefit Analysis

Required Readings:

Gruber: (5) Externalities: Problems and Solutions, (7) Public Goods, (8) Cost-Benefit Analysis.

Bloom, David E. and Sherry Glied, "Benefits and Costs of HIV Testing", *Science* 252, June 1991, 1798-1801.

Elliot, Gareth and Geoff Harris, "A Cost-Benefit Analysis of Landmine Clearance in Mozambique", *Development Southern Africa* 18(5), December 2001, 625-633.

Optional Reading:

Joseph Persky, "Cost-Benefit Analysis and the Classical Creed", *Journal of Economic Perspectives* 15(4), Fall 2001, 199–208.

Week 10

State and Local Public Finance

Required Readings:

Gruber: (10) State and Local Government Expenditures.

Fisher, Ronald and Leslie E. Papke, "Local Government Responses to Education Grants", *National Tax Journal* 53(1), March 2000, 153-168.

Optional Reading:

Oates, Wallace E., "An Essay on Fiscal Federalism", *Journal of Economic Literature* 37, September 1999, 1120-1149.

Assignment is 7 due in class.

Week 11

Social Insurance I

Required Readings:

Gruber: (12) Social Insurance: The New Function of Government, (13) Social Security.

Social Security Trustees, *2005 Trustees Report*, 2005. [*Skim* "Introduction" and "Overview"]

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

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

Optional Readings:

Liebman, Jeffrey, "Redistribution in the Current U.S. Social Security System," in Martin Feldstein and Jeffrey Liebman (eds.), *Distributional Aspects of Social Security Reform*, Chicago: University of Chicago Press, 2002.

Furman, Jason, "Evaluating Alternative Social Security Reforms," Testimony before the Full Committee of the House Committee on Ways and Means, May 12, 2005.

Assignment 8 is due in class.

Week 12
Social Insurance II

Required Readings:

Gruber: (14) Unemployment Insurance, Disability Insurance and Workers' Compensation.
Feldstein, Martin, "Rethinking Social Insurance," *American Economic Review*, 95(1), March 2005, 1-24.

Optional Reading:

Meyer, Bruce, "Lessons from the U.S. Unemployment Insurance Experiments," *Journal of Economic Literature*, 33, March 1995, 91-131.

Assignment 9 is due in class.

Week 13
Health Insurance

Required Readings:

Gruber: (15) Health Insurance I: Health Economics and Private Health Insurance, (16) Health Insurance II: Medicare, Medicaid, and Health Care Reform

Optional Reading:

Manning, Willard G., Joseph P. Newhouse, Naihua Duan, Emmett B. Keeler and Arleen Leibowitz, "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment" *American Economic Review* 77(3), June 1987, 251-277

Policy exercise is due in class.

Week 14
Income Distribution and Welfare Programs

Required Readings:

Gruber: (17) Income Distribution and Welfare Programs
Blank, Rebecca M., "Evaluating Welfare Reform in the United States" *Journal of Economic Literature* 40(4), December 2002, 1105-1166.

Assignment 10 is due in class.

FINAL EXAM

Lecture Schedule and Deadlines for Submission of Written Work

		Prof. Furman Tuesdays 6:20-8pm		Prof. Chan Wednesdays 1-2:40pm	
1	Introduction to Public Finance	6 Sep		7 Sep	
2	Government Budgets	13 Sep	Assignment 1	14 Sep	Assignment 1
3	Introduction to Taxation	20 Sep	Assignment 2	21 Sep	Assignment 2
4	Tax Incidence and Efficiency	27 Sep	Assignment 3	28 Sep	Assignment 3
5	Taxes: Labor Supply and Saving	4 Oct	Assignment 4	5 Oct	Assignment 4
6	Taxes: Risk Taking and Wealth; Corporate	11 Oct	Assignment 5	12 Oct	Assignment 5
7	Fundamental Tax Reform	18 Oct	Assignment 6	19 Oct	Assignment 6
8	MIDTERM EXAM	25 Oct		26 Oct	
9	Market failures; Cost-benefit Analysis	1 Nov		2 Nov	
10	State and Local Public Finance	8 Nov	Assignment 7	9 Nov	Assignment 7
11	Social Insurance I	15 Nov	Assignment 8	16 Nov	Assignment 8
12	Social Insurance II	22 Nov	Assignment 9	30 Nov	Policy Exercise
13	Health Insurance	29 Nov	Policy Exercise	7 Dec	Assignment 9
14	Income Distribution and Welfare Programs	6 Dec	Assignment 10	14 Dec	Assignment 10
Finals	FINAL EXAM	20 Dec		21 Dec	

GRADING CRITERIA

Grades will be assigned according to the following criteria:

- A Excellent:** Exceptional work for a graduate student. Work at this level is unusually thorough, well reasoned, creative, methodologically sophisticated, and well written. Work is of exceptional, professional quality.
- A- Very Good:** Very strong work for a graduate student. Work at this level shows signs of creativity, is thorough and well-reasoned, indicates strong understanding of appropriate methodological or analytical approaches, and meets professional standards.
- B+ Good:** Sound work for a graduate student; well-reasoned and thorough, methodologically sound. This is the graduate student grade that indicates the student has fully accomplished the basic objectives of the course.
- B Adequate:** Competent work for a graduate student even though some weaknesses are evident. Demonstrates competency in the key course objectives but shows some indication that understanding of some important issues is less than complete. Methodological or analytical approaches used are adequate but student has not been thorough or has shown other weaknesses or limitations.
- B- Borderline:** Weak work for a graduate student; meets the minimal expectations for a graduate student in the course. Understanding of salient issues is somewhat incomplete. Methodological or analytical work performed in the course is minimally adequate. Overall performance, if consistent in graduate courses, would not suffice to sustain graduate status in “good standing.”
- C/-/+Deficient:** Inadequate work for a graduate student; does not meet the minimal expectations for a graduate student in the course. Work is inadequately developed or flawed by numerous errors and misunderstanding of important issues. Methodological or analytical work performed is weak and fails to demonstrate knowledge or technical competence expected of graduate students.
- F Fail:** Work fails to meet even minimal expectations for course credit for a graduate student. Performance has been consistently weak in methodology and understanding, with serious limits in many areas. Weaknesses or limits are pervasive.