Course Description: This course covers several applied topics in the field of public economics: economics of taxation, anti-poverty programs, discrimination, and the criminal justice system. It is designed to provide a working knowledge of modern theoretical and empirical techniques for policy analysis. The aim of the course is to help students develop the skills to think critically about the economics underlying public policies, to identify and answer research questions, and to analyze microeconomic issues empirically.

Learning Outcomes: This course is designed to help students achieve two of the stated learning goals of the graduate program in Economics: 1) attain marked ability, scholarship, research, and leadership skills in economics with specialization in sub-disciplines; and 2) engage in and conduct research. These learning goals apply to both doctoral and masters students.

The specific goals for the course are:
- Provide students with a solid working knowledge of the current research in the economics of taxation, anti-poverty programs, discrimination, and the criminal justice system.
- Expose students to a wide-range of data sources and empirical techniques
- Teach students how to give research presentations
- Help students develop research proposals that may be used for second year papers or masters’ theses

Method of Evaluation: Course grades will be determined as follows:

Active Participation
- Presentation of 2 starred papers (*) from reading list 15%
- Reaction paper (due on or before April 30) 15%
- Attendance and participation in class discussions 5%

Final exam (will be held during finals week) 25%

Research Proposal
- Presentation (last three classes of the semester) 10%
- Two page pre-proposal (due March 22) 30%
- Written proposal (due April 30) 30%

Active Participation: Students are expected to attend all class meetings and actively participate in class discussions by asking and answering questions. Students are expected to come to each class having done any announced readings and being prepared to participate.
Each student will be required to present two of the starred (*) papers from the reading list – one from Part I (Taxation) and one from Part 2 (Anti-Poverty programs, discrimination, and the criminal justice system). These presentations should be in the style of a 15 minute "conference presentation" aimed at promoting further discussion of the paper. They should include the following:

- A clear statement of the research question and the motivation for studying it
- A discussion of the empirical methodology and data used
- The highlights of the empirical results
- A statement of the authors' conclusions

Please submit your chosen paper by Thursday Feb 1 via e-mail to both Prof. Altshuler and Prof. Agan. Each student should choose 5 papers from Part 1 and 5 from Part 2 and rank in the sequence of preference. Professor Altshuler will announce the final schedule on Monday, Feb 5.

**Exam:** The final exam will be held during finals week. The date for the exam will be arranged in class. You will be required to answer questions on the material presented by Professor Altshuler and by Professor Agan.

**Reaction Paper:** For the reaction paper you will read, summarize, and react to a current working paper (an unpublished economic research paper posted online) in public economics, broadly defined. One of the best sources of current working papers is the National Bureau for Economic Research (NBER) – you can sign up to receive weekly emails with a list of new working papers here: [http://www.nber.org/prefs/digest.pl](http://www.nber.org/prefs/digest.pl)

The working paper does not need to be an NBER WP - a large list of working paper series can be found here: [https://econpapers.repec.org/paper/](https://econpapers.repec.org/paper/), or you visit the websites of economists working in your field to see their recent working papers. You may also consult with Prof. Altshuler or Prof. Agan to get suggestions for working papers or to ask us if the one you found is appropriate.

This working paper does not need to be directly related to your research proposal, but you will get the most out of this assignment if it is.

The reaction paper should be 2-4 pages long and include:

- The title and authors of the working paper you are reacting to, as well as a link to where you found it
- A summary of the main research question, data (if applicable), methodology, and results/conclusion
- 2-3 paragraphs on how this working paper fits into the literature – what is the major literature it is directly related to? How does it contribute to this literature?
- 2-3 paragraph “reaction” to the working paper – is this contribution a strong one? Are there any weaknesses in the paper? What open questions remain about the topic/research question the paper addresses? How would you think about expanding on the contribution of the paper?

Please be careful about plagiarism, the reaction paper should be your own interpretation and reaction to the working paper, not just copying from the introduction or lit review section of the working paper.
This reaction paper can be turned in *anytime* during the semester, but no later than the last day of class (April 30th by noon) by uploading it to the appropriate assignment on Sakai.

**Research proposal:** Students will be required to develop a research proposal. Students may choose any topic in public economics, even those not explicitly covered in the course. However, all students are encouraged to consult with Professor Altshuler and/or Professor Agan for guidance in choosing topics.

The paper will have the form of a research proposal in public economics, such as one might submit as a grant request to a funding agency. The paper should 1) state the research question clearly, 2) explain how the question relates to other, resolved, questions and how it is different, 3) defend why the question is important enough to warrant attention, 4) review the existing literature on the topic, 5) sketch out a model that will allow you to answer the question, 6) identify what are likely to be the important theoretical and empirical problems to be overcome, 7) describe the data that could be used for analysis, and 8) conclude.

Some questions to include in the review of existing literature include:

- What questions have been addressed by other scholars and how do they relate to the proposed research?
- What are the problems or limitations of the previous research?
- What key questions are still unanswered?
- How will the proposed project contribute to the existing literature?

A two-page pre-proposal will be due on Thursday, March 22. The pre-proposal should briefly describe the research question (first page) and list articles that you intend to use as references (second page).

**Background:** To develop a good overview of the public economics field, students should have established a solid mastery of an advanced undergraduate text. Harvey S. Rosen and Ted Gayer, *Public Finance*, 10th edition, McGraw-Hill Publishers, is highly recommended. Students should have read through it by the end of the semester. Another undergraduate text that is also recommended is Jonathan Gruber, *Public Finance and Public Policy*, 5th edition, Worth Publishers.

For discrimination, students should have a good understanding of labor supply, labor demand and wage determination. These topics are covered in *Microeconomic Theory: Basic Principles and Extensions* by Walter Nicholson and Christopher Snyder or in *Labor Economics* by Pierre Cahuc, Andre Zylberberg and Stephane Carcillo (any edition).

**Website:** The course has a website at sakai.rutgers.edu. We will post updated reading lists and links to many of the readings there. It also has links to related resources elsewhere on the web.

**Class Schedule (very tentative):**

- Jan 18: Intro to the Class
- Jan 22 – Feb 22: Professor Altshuler lectures
- Feb 1: Paper presentation preferences due (via email)
- Feb 26: Student presentations of selected papers from Part 1
- March 1 – 5: Professor Agan lectures
- March 8: Student presentations of selected papers from Part 1
• March 12 –16  Spring break
• March 22  Research pre-proposal due
• March 19 – March 29  Professor Agan lectures
• April 2  Student presentations of selected papers from Part 2
• April 5 – 16  Professor Agan lectures
• April 19  Student presentations of selected papers from Part 2
• April 23 – 30  Student presentations of their research proposals
• April 30  Research proposals due and last day to submit reaction paper
• Finals period  Final exam (date to be announced)
READING LIST

Where possible links are provided, but you should already be, or quickly become, familiar with how to find scholarly articles online.

Tip: add .proxy.libraries.rutgers.edu to a link to a journal article in order to log-in to your Rutgers account and read the article off-campus., i.e. http://www.sciencedirect.com/science/journal/0304405X is the on-campus link for Journal of Financial Economics. Off-campus, you can use http://www.sciencedirect.com.proxy.libraries.rutgers.edu/science/journal/0304405X Most of the time that works. If not, it's usually due to the way the publisher configures the website, and you can look the title up in the Libraries catalog to get the full link.

References

Very good graduate level texts include:


An important source of survey articles is:

Various editors, Handbook of Public Economics, volumes 1-5, North-Holland. (Note: Many of these articles are available on the course website.)

Other sources of review articles include:


A. Auerbach and K. Smetters, eds., The Economics of Tax Policy, Oxford University Press, 2017.

Nice sets of lecture slides are available for some topics:

Public Economics Lectures (Raj Chetty) http://www.rajchetty.com/lectures/

Graduate Public Economics (Emmanuel Saez) http://elsa.berkeley.edu/~saez/course/course.html

Graduate Public Economics (Gabreile Zucman) http://gabriel-zucman.eu/econ230/

Graduate Public Economics (Alan Auerbach) https://eml.berkeley.edu/~webfac/auerbach/e230a_f17/e230a_f17.shtml
PART 1: Economics of Taxation

I. THE THEORY AND MEASUREMENT OF TAX INCIDENCE

A. Tax Incidence, Preliminaries and Overview

Rosen, chapter 14.

B. Partial Equilibrium Tax Incidence

Salanié, chapter 1.


C. General Equilibrium Tax Incidence

Myles, chapter 8, pages 236-24.


D. Capitalization and the Asset Price Approach


**II. EFFICIENCY COST OF TAXATION**

A. Overview

Rosen, chapter 15.

Salanié, chapter 2.


B. Applications


C. Response of taxable income to tax rates


III. TAX SALIENCE


IV. OPTIMAL TAXATION

A. Overview and introduction

Rosen, chapter 16.

Salanié, chapters 2-7.


B. Optimal Commodity Taxation

Myles, Chapter 4.

Salanié, chapter 3.
Auerbach and Hines, section 3.

C. Optimal Income Taxation

Myles, Chapter 5.

Auerbach and Hines, section 4.


D. Application: Tax Reform


V. SAVING AND PORTFOLIO CHOICE

A. Overviews

Rosen, chapter 18.


B. Optimal Taxation of Saving and the Choice of Tax Base


C. Portfolio Choice


D. Tax-Favored Saving


E. The Behavior of High-Income Individuals: Taxation of Capital Gains and Estates


F. Shifting of Capital and Labor Income


VI. CORPORATE TAXATION, FINANCE AND INVESTMENT

A. Overviews

Rosen, chapter 19.


B. Corporate Financial Policy


C. Investment Behavior


D. International Tax and Tax Competition


PART 2: Topics in Social Welfare

VII. ANTI-POVERTY PROGRAMS

A. EITC


B. Minimum Wage


C. In-Kind Transfers (SNAP/Food Stamps, Housing Vouchers, Head Start)


VII. DISCRIMINATION

A. Overviews


B. Theory


C. Non-Experimental Evidence


D. Audit Studies/Experimental Evidence


Neumark, David. 2011. Detecting Discrimination in Audit and Correspondence Studies,” 
Journal of Human Resources 47(4)


VIII. Criminal Justice

A. Discrimination in the Criminal Justice System

a. In Police Stops


b. In case outcomes


B. Public Policy and Crime

a. COPS Grants


b. Immigration


c. Schooling


d. Neighborhoods and Vouchers