ECONOMICS 1410 / KENNEDY SCHOOL SUP-125 Public Economics: Designing Government Policy

Professors Martin Feldstein and Stefanie Stantcheva

Teaching Fellow: Yazan Al-Karablieh (yzal@g.harvard.edu)

Course Description: This course analyzes what role the government plays and should play in a market economy, especially those policies that work through taxes and government spending. It covers topics such as tax and welfare policy, unemployment insurance, environmental protection, education policy, social security, and the implications of behavioral economics for public policy. The course emphasizes recent empirical and theoretical research on policy issues and will teach students how to conduct such studies.

The first half of the course, taught by Professor Feldstein, will cover the basic principles of public economics. These principles will be used to shed light on current questions and debates on tax policy. The second half of the course, taught by Professor Stantcheva, will discuss recent research papers that extend some of the traditional principles and point toward new theories. This part of the course will also teach students current econometric and theoretical methods used in applied microeconomics.

Prerequisites: Economics 1010a or 1011a or permission of the instructors. Familiarity with multivariate calculus and econometrics (at the level of economics 1123 or 1126) is desirable.

Course Mechanics:
1) Lectures – Two lectures per week. MW(F) 2:00 to 3:30 in Sever 102.
2) Sections – One per week. Room and time TBA.
3) Readings – Jonathan Gruber, Public Finance and Public Policy (3rd edition), is the textbook. Other required readings are listed below.
4) Assignments will be posted on the course website, which should be checked regularly:
   https://canvas.harvard.edu/courses/9617

Grading: Grades will be based on a midterm exam (30 percent), final exam (50 percent), and problem sets (20 percent). Senior thesis and master’s thesis writers may choose to omit the midterm and have their grade based on the final exam (75 percent) and problem sets (25 percent). Because you will have two weeks to complete each problem set and in order to allow the solutions to be posted quickly on the course webpage, late problem sets will not be accepted.

Term Paper Option: Students may write a term paper that contains original research on a topic in public economics. The term paper satisfies the Economics Department’s writing requirement for economics concentrators. See below for more details on this option.
**Academic accommodations:** Students needing academic accommodations because of a documented disability must present their Faculty Letter from the Accessible Education Office (AEO) by Monday, September 18.

**Collaboration:** Discussion and the exchange of ideas are essential to academic work. You are encouraged to consult with your classmates on the choice of paper topics and to share sources. You may find it useful to discuss your chosen topic with your peers, particularly if you are working on the same topic as a classmate. However, you should ensure that any written work you submit for evaluation is the result of your own research and writing and that it reflects your own approach to the topic. You must also adhere to standard citation practices in this discipline and properly cite any books, articles, websites, lectures, etc. that have helped you with your work. If you received any help with your writing (e.g., feedback on drafts), you must also acknowledge this assistance.

No collaboration of any kind is allowed during exams. On problem sets, you may consult with your classmates and the teaching staff. However, you must write up your own solutions in your own words based on your own understanding.

**Frequently asked questions:**

1. **Textbook.** You are welcome to buy any edition of the textbook. The textbook provides useful background material but the lectures do not follow any book. Therefore, attending class is critical. The textbook would be an especially useful resource for students interested in writing a senior honors thesis or term paper on a policy related topic.

2. **Grading option.** The course must be taken for a letter grade. However, you are welcome to sit in on the lectures if you choose not to take the class for credit.

3. **Adding the course late.** The last day to add the course without a fee is September 18. You may add the course until this date, but only if you have attended the lectures and kept up with the readings. Borrowing notes from others is not sufficient. Therefore, if you think that you may want to take the course for credit, you should attend class and complete the coursework on-time (e.g., readings, problem sets, term paper proposals), as if you are enrolled in the course. We may ask to see your class notes before signing your add form.

4. **Cross-registration and website access.** The course is open to students from other faculties and from MIT. In order to view the files on the course website, students enrolled in the course will need to log-in with a Harvard University ID and pin. Students enrolled through the Kennedy School course or who otherwise do not have a HUID can sign up for a XID at: https://xid.harvard.edu/xid-apps/displaySSCreateForm.do

5. **Course meetings.** The course meets on Monday and Wednesday most weeks. Some weeks we will also meet on Friday, as noted in the outline of the lecture schedule on the following pages. In the event of lectures needing to be rescheduled during the term, additional Friday meetings may need to be added and will be announced in class in advance.
6. Attendance. Students who are enrolled in the course for credit are responsible for all material covered and any course announcements made in lecture and section. You should only enroll in the class for credit if you can attend class regularly. Students who have had to miss more than one or two lectures in the past have had difficulty on problem sets and exams and have not done well in the course.

7. Other readings. Academic journal articles listed on the reading list below will be distributed electronically for your convenience. Please see the course website for details on the procedure that we will use. All articles should also be available to Harvard College students for free by searching for the title in Google Scholar:


or as working papers through the National Bureau of Economic Research website:

http://www.nber.org.ezp-prod1.hul.harvard.edu

8. Exams. The midterm exam will be held in class on October 16. You should only enroll in the class for credit if you can be in attendance to take the midterm on this date. The date, time, and location of the final exam will be assigned by the registrar’s office. It is tentatively scheduled for December 12 at 9am.

No notes or books are allowed during either exam. You may use a calculator.

**Term paper option**

Students writing a term paper will have modified assignments. The term paper along with a term paper proposal and modified versions of problem set 1 and 2 will together count for 20 percent of the grade. The term paper proposal and modified problem set 1 are due on 9/30. The modified problem set 2 is due on 11/16. The completed term paper is due 3 days before the final exam.

Most term papers use Stata, which is available for download at:

https://downloads.fas.harvard.edu

Papers from previous years include the following.

1. The effect of the Bush tax cuts on the spread between tax-exempt and taxable securities (using data on yields from Baker Library at HBS)

2. Using asset prices to measure the general equilibrium incidence of supreme court rulings on producers of GMO foods (using Famma-French and CRSP data from the WRDS database)

3. The effect of professional sports franchises and stadiums on employment and local economic growth
4 The effect of top marginal tax rates on executive compensation (using ExecuComp data from the WRDS database)

5 Gender inequality and intergenerational mobility (using female-male wage gaps constructed from the CPS and intergenerational mobility data from the Equality of Opportunity project)
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<thead>
<tr>
<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>Wednesday, August 30</td>
<td>Feldstein &amp; Statcheva – Introduction to Ec1410</td>
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<tr>
<td></td>
<td>Feldstein: Labor Supply, Taxable Income and Deadweight Losses 1</td>
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<td>Monday, September 4</td>
<td>Holiday – Labor Day</td>
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<tr>
<td>Wednesday, September 6</td>
<td>Feldstein: Labor Supply, Taxable Income and Deadweight Losses 2</td>
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<td>Monday, September 11</td>
<td>Feldstein: Distributional Effects of Taxes, Inequality and Fairness Issues 1</td>
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<td>Wednesday, September 13</td>
<td>Feldstein: Distributional Effects of Taxes, Inequality and Fairness Issues 1</td>
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<td>Friday, September 15</td>
<td>Feldstein: Taxes and Savings 1 (PS 1 assigned)</td>
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<td>Monday, September 18</td>
<td>Stantcheva: Income Distribution, Poverty, Taxes and Transfers</td>
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<td>Wednesday, September 20</td>
<td>Stantcheva: Theoretical Tools for Public Economics</td>
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<td>Monday, September 25</td>
<td>Feldstein: Taxes and Savings 2</td>
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<td>Wednesday, September 27</td>
<td>Feldstein: Taxes and Risk Taking</td>
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<td>Monday, October 2</td>
<td>Feldstein: Tax Reform</td>
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<td>Wednesday, October 4</td>
<td>Feldstein: Tax Reform; Corporates Taxes</td>
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<td>Wednesday, October 11</td>
<td>Feldstein: Budget Deficits</td>
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<td>Friday, October 13</td>
<td>Feldstein: Social Security 1</td>
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<tr>
<td>Monday, October 16</td>
<td>Mid-Term Exam</td>
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<td>Friday, October 20</td>
<td>Social Security 2</td>
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<tr>
<td>Monday, October 30</td>
<td>Feldstein: Cost Benefits Analysis</td>
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ECONOMICS 1410: LECTURE DATES

Wednesday, November 1  Stantcheva: Tax Incidence
Monday, November 6  Stantcheva: Optimal Labor Income Taxation
Wednesday, November 8  Stantcheva: Taxes and Labor Supply
Monday, November 13  Stantcheva: Taxes and Reported Income
Wednesday, November 15  Stantcheva: Externalities
Monday, November 20  Stantcheva: Public Goods
Wednesday, November 22  Stantcheva: Social Insurance (intro) and Health Insurance (Part I)
Monday, November 27  Stantcheva: Health Insurance (Part II)
Wednesday, November 29  Stantcheva: Unemployment Insurance, Disability Insurance, Workers’ Compensation
ECONOMICS 1410: READINGS

Labor Supply, Taxable Income, and Deadweight Losses  
Feldstein

[Optional background reading] Gruber, Chapter 21


Distributional Effects of Taxes, Inequality and Fairness Issues  
Feldstein

[Optional background reading] Gruber, Chapter 19


*Taxes and Savings*  
Feldstein

[Optional background reading] Gruber, Chapter 22


**September 18: Income Distribution, Poverty, Taxes and Transfers**  
Gruber, Jonathan, Public Finance and Public Policy, 2016 Worth Publishers, Chapters 17 and 18


**September 20: Theoretical Tools for Public Economics**  
Gruber, Jonathan, Public Finance and Public Policy, 2016 Worth Publishers, Chapter 2


**Taxes and Risk-Taking**  
[F] Gruber, Chapter 23


**Tax Reform**  
[F] Feldstein


**Budget Deficits**

Feldstein


Congressional Budget Office, “The 2016 Long-Term Budget Outlook,” July 12, 2016 (Chapter 1).


[Optional background reading] Gruber, Chapter 12 and 13


Congressional Budget Office, “The 2016 Long-Term Budget Outlook,” July 12, 2016 (chapter 2).


November 1: Tax Incidence

Stantcheva

Gruber, Jonathan, Public Finance and Public Policy. 2016 Worth Publishers, Chapter 2


November 6: Optimal Labor Income Taxation


November 8: Taxes and Labor Supply


November 13: Taxes and Reported Income


November 15: Externalities


November 20: Public Goods


November 22: Social Insurance (intro) + Health Insurance Part I


**November 27:** Health Insurance Part II

Gruber, Jonathan, Public Finance and Public Policy, 2016 Worth Publishers, Chapter 15 and 16


**November 29:** Unemployment Insurance, Disability Insurance, Workers’ compensation.

Gruber, Jonathan, Public Finance and Public Policy, 2016 Worth Publishers, Chapter 14

