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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, social security, and state and local policy. The course emphasizes recent empirical research on policy issues and will teach students how to conduct such studies.

The first half of the course, taught mainly by Professor Stantcheva, 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 mainly by Professor Veuger, will discuss recent research on taxation, health care, the regulatory state, political economy, and state and local policy. This part of the course will also teach students current econometric methods used in public economics.

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 3:00 to 4:15 in Sever Hall 308.
2) Sections – One per week. Room and time TBA.
3) Readings – Jonathan Gruber, *Public Finance and Public Policy (5th edition)*, is the optional but recommended textbook. Other readings are listed below.
4) Assignments will be posted on the course website, which should be checked regularly: https://canvas.harvard.edu/courses/60932

Grading: Grades will be based on a midterm exam (30 percent), final exam (50 percent), and problem sets (20 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 23.

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 24. 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 an XID at:

   https://xid.harvard.edu/xid-apps/displaySSCreateForm.do

5. Course meetings. The course meets on Monday and Wednesday. A detailed lecture schedule is outlined below.

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 23. 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.

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

**Term paper option**

Students writing a term paper will not have to complete the assignments. Instead, the term paper will count for 20 percent of the grade. A term paper proposal is due on 9/24. 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 Fama-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)
LECTURE DATES

1. Wednesday, September 4  
   Veuger - Intro; Empirical Methods for Public Economics

2. Monday, September 9  
   Stantcheva - Income Distribution, Poverty, Taxes and Transfers

3. Wednesday, September 11  
   Stantcheva - Theoretical Tools for Public Economics

4. Monday, September 16  
   Stantcheva - Tax Incidence

5. Wednesday, September 18  
   Stantcheva - Optimal Labor Income Taxation

6. Monday, September 23  
   Stantcheva - Taxes and Labor Supply [AEO letters due; PS1 assigned]

7. Wednesday, September 25  
   Stantcheva - Taxes and Reported Income

Monday, September 30  
   No Class (Rosh Hashanah)

8. Wednesday, October 2  
   Stantcheva - Externalities

9. Monday, October 7  
   Stantcheva - Public Goods

Wednesday, October 9  
   No Class (Yom Kippur)

10. Friday, October 11  
    Stantcheva - Social Insurance (intro) and Health Insurance (Part I) [PS1 due]

Monday, October 14  
   No Class (Columbus Day)

11. Wednesday, October 16  
    Veuger - The Federal Budget

12. Monday, October 21  
    Stantcheva - Stantcheva: Health Insurance (Part II)

13. Wednesday, October 23  
    Midterm

14. Friday, October 25  
    Veuger – Social Security

15. Monday, October 28  
    Veuger – Tax Reform

16. Wednesday, October 30  
    Veuger – Business Taxation

17. Monday, November 4  
    Veuger – Politics and Policy

18. Wednesday, November 6  
    Veuger – Politics and Policy / Regulation [PS 2 assigned]

Monday, November 11  
   No Class (Veterans Day)

19. Wednesday, November 13  
    Veuger - Regulation

20. Monday, November 18  
    Veuger – Multilevel Government

21. Wednesday, November 20  
    Veuger – Multilevel Government

22. Monday, November 25  
    Veuger – Health Care Reform [PS 2 due]

Wednesday, November 27  
   No Class (Thanksgiving)

23. Monday, December 2  
    Stantcheva - Unemployment Insurance, Disability Insurance, Workers’ Compensation; Review
READINGS

September 4: Introduction and Empirical Methods for Public Economics

Gruber, Chapter 3


September 9: Income Distribution, Poverty, Taxes and Transfers

Gruber, Chapters 17 and 18


September 11: Theoretical Tools for Public Economics

Gruber, Chapter 2

September 16: Tax Incidence

Gruber, Chapter 19


September 18: Optimal Labor Income Taxation

Gruber, Chapter 20 and 21


September 23: Taxes and Labor Supply

Gruber, Chapter 21


September 25: Taxes and Reported Income

Stantcheva


**October 2: Externalities**  
Stantcheva


**October 7: Public Goods**  
Stantcheva

Gruber, Chapter 1 and 7

**October 11: Social Insurance (Intro) and Health Insurance (Part I)**  
Stantcheva

Gruber, Chapter 12, 15, and 16


October 16: The Federal Budget

Veuger

Gruber, Chapter 4


October 21: Health Insurance (Part II)

Stantcheva

Gruber, Chapter 15 and 16


October 25: Social Security

Veuger

Gruber, Chapter 13


Martin Feldstein and Jeffrey Liebman, “The Distributional Effects of an Investment Based Social Security System,” in Martin Feldstein and Jeffrey Liebman, eds., The


October 28: Tax Reform

Veuger

Gruber, Chapter 25


October 30: Business Taxation

Gruber, Chapter 24 (optional)


November 4 and 6: Politics and Policy

Gruber, Chapter 9


November 6 and 13: Regulation

Chapter 5 and 8


*November 18 and 20: Multilevel Government*  
Veuger

Gruber, Chapter 10 and 11


**November 25: Health Care Reform**

Gruber, Chapter 15 and 16 (optional)


**December 2: Unemployment & Disability Insurance, Workers’ Compensation**

Gruber, Chapter 14

