Fall 2020

ECONOMICS 1410 / KENNEDY SCHOOL SUP-125
Public Economics: Designing Government Policy
Stefanie Stantcheva and Stan Veuger

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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, social security, environmental protection, 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 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 provision of public goods, and social insurance.

The second half of the course, taught by Professor Veuger, will highlight recent empirical research on business taxation, the regulatory state, political economy, and multilevel government. In this part we will also see how the theoretical and empirical approaches covered in the course can be and have been used to inform and assess the economic policy response to the COVID-19 crisis, in particular in the United States and Europe.

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 during the first half of the course, MW 3:00 to 4:00 during the second half.
2) Policy discussion – One per week during the second half of the course. Time and specific topics TBD. Topics will most likely include Pandemic Unemployment Insurance, the Payroll Protection Program, the Black Lives Matter protests, and the European Union’s Recovery and Resilience Facility, though much can happen between now and October.
2) Sections – One per week. Time TBD.
3) Readings – Jonathan Gruber, Public Finance and Public Policy (6th edition), is the 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/74528

Grading: Grades will be based on a final exam (50 percent) and four problem sets (50 percent). Students writing a term paper do not have to sit the final exam and will only have to complete two problem sets. Instead, the term paper will count for 75 percent of the grade.
**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 22.

**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 the exam. 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.

2. **Grading option.** Students may enroll in the course on a Pass/Fail basis with permission of the instructors.

3. **Adding the course late.** The last day to add the course without a fee is September 22.

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. **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.

6. **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/

7. Exams. The final exam will be held in class on December 2. Unless you are planning on writing a term paper, you should only enroll in the class for credit if you can be in attendance to take the final on this date.

Term Paper

A term paper proposal is due on 9/25. Proposals should be about 5 pages in length, explaining the i) motivation; ii) question asked; iii) related literature; iv) empirical strategy or theoretical model; v) data to be used (if any); vi) results expected or hoped for. The complete paper is due on December 2.

Most term papers use Stata, which is available for download at: https://downloads.fas.harvard.edu/

Papers from previous years include the following.

1. An analysis of the salience of payroll taxes relative to income taxes, and its implications for welfare and policy (using data from the Panel Survey of Income Dynamics)
2. Measurement of the 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 2  
   Stantcheva - Intro; Income Distribution, Poverty, Taxes and Transfers

   *Monday, September 7  
   No Class (Labor Day)*

2. Wednesday, September 9  
   Stantcheva - Theoretical Tools for Public Economics

3. Monday, September 14  
   Stantcheva - Tax Incidence

4. Wednesday, September 16  
   Stantcheva - Optimal Labor Income Taxation

5. Monday, September 21  
   Stantcheva - Taxes and Labor Supply [**AEO letters due; PS1 assigned**]

6. Wednesday, September 23  
   Stantcheva - Taxes and Reported Income

   *Monday, September 28  
   No Class (Yom Kippur)*

7. Wednesday, September 30  
   Stantcheva – Externalities [**PS1 due**]

8. Monday, October 5  
   Stantcheva - Public Goods [**PS2 assigned**]

9. Wednesday, October 7  
   Stantcheva - Social Insurance (intro) and Health Insurance (Part I)

   *Monday, October 12  
   No Class (Columbus Day)*

10. Wednesday, October 14  
    Stantcheva - Stantcheva: Health Insurance (Part II)

11. Monday, October 19  
    Stantcheva - Unemployment Insurance, Disability Insurance, Workers’ Compensation; Review [**PS2 due**]

12. Wednesday, October 21  
    Veuger – Empirical Tools for Public Economics

13. Monday, October 26  
    Veuger – The Federal Budget

14. Wednesday, October 28  
    Veuger – Politics and Policy

15. Monday, November 2  
    Veuger – Politics and Policy [**PS3 assigned**]

16. Wednesday, November 4  
    Veuger – Business Taxation

17. Monday, November 9  
    Veuger – Tax Reform

18. Wednesday, November 11  
    Veuger – Multilevel Government [**PS 3 due**]

19. Monday, November 16  
    Veuger – Multilevel Government [**PS4 assigned**]

20. Wednesday, November 18  
    Veuger – Regulation

21. Monday, November 23  
    Veuger – Old-Age Pensions and Social Security

   *Wednesday, November 25  
   No Class (Thanksgiving)*

22. Monday, November 30  
    Veuger – Health Care Policy [**PS 4 due**]

23. Wednesday, December 2  
    Examination
READINGS

September 2: Income Distribution, Poverty, Taxes and Transfers

Gruber, Chapters 17 and 18


September 9: Theoretical Tools for Public Economics

Gruber, Chapter 2


September 14: Tax Incidence

Gruber, Chapter 19


September 16: Optimal Labor Income Taxation

Gruber, Chapter 20 and 21


September 21: Taxes and Labor Supply

Gruber, Chapter 21


September 23: Taxes and Reported Income

Stantcheva


September 30: Externalities

Stantcheva

Gruber, Chapter 5 and 6


October 5: Public Goods

Stantcheva
Gruber, Chapter 1 and 7

October 7 and 14: Social Insurance (Intro) and Health Insurance  

Gruber, Chapter 12, 15, and 16


October 19: Unemployment & Disability Insurance, Workers’ Compensation  

Gruber, Chapter 14


October 21: Empirical Methods for Public Economics  

Gruber, Chapter 3


**October 26: The Federal Budget**

Veuger

Gruber, Chapter 4


**Discussion 1: COVID-19 Labor Policy Responses in the EU and the US (Tentative)**


**October 28 and November 2: Politics and Policy**

Veuger

Gruber, Chapter 9


**Discussion 2: Black Lives Matter Protests and the 2020 U.S. Election (Tentative)**


*November 4: Business Taxation*  
Veuger

Gruber, Chapter 24


*November 9: Tax Reform*  
Veuger

Gruber, Chapter 25


*Discussion 3: COVID-19 Business Support Programs in the EU and the US (Tentative)*

November 11 and 16: Multilevel Government

Veugerr

Gruber, Chapter 10 and 11


Discussion Session 4: The European Union’s COVID-19 Recovery Fund (Tentative)


November 18: Regulation

Veugerr

Chapter 5 and 8


**Discussion 5: Implications of the COVID-19 Epidemic for State and Local Budgets (Tentative)**


**November 23: Old-Age Pensions and Social Security**

Veuger

Gruber, Chapter 13


**November 30: Health Care Policy**

Veuger

Gruber, Chapter 15 and 16


*Discussion Session 6: Pricing COVID-19 Treatments and Vaccines (Tentative)*