

Problem Set 2

EC2450A

Fall 2016

Due Friday Oct, 28th

As seen in class, many of the best papers on labor supply responses to taxes and transfers exploit a policy change (a so-called Natural Experiment) in order to obtain convincing estimates. We ask you to find a Natural Experiment and propose an estimation methodology.

Download the pdf copy of the OECD annual publication *Taxing Wages* for years 2004 to 2016 ([link here](#), you can access the reports when connected through Harvard Hollis). Part III of this publication describes the tax/benefits systems (including payroll taxes, income taxes, and various benefits) faced by wage income earners for each OECD country. Recent changes in the tax/benefit system are explicitly described in Section 4 for each country.

- (a) Find one reform in one country which took place between 2004 and 2016 that could be used to estimate labor supply responses to taxes or transfers for some group of interest in the population. Make sure the reform is large enough to be useable for compelling identification. Describe the reform you have picked.
- (b) Describe the methodology you would use to estimate such labor supply responses. In particular, make sure to be fully explicit about the assumptions you need to identify the labor supply response parameters. Try to explain whether your estimates capture participation versus intensive elasticities, uncompensated versus compensated elasticities, income effects, etc.
- (c) Describe the data you would need to carry out the analysis. Survey or administrative data, variables, realistic sample size, time period, panel or repeated cross section, etc. Search online to investigate whether such data exist and how they could be obtained for the research analysis you are proposing.
- (d) (FOR FUTURE WORK): If you find a really promising Natural Experiment, the next step is to look for the related literature (you want to be the first to analyze this change!) and then try and get the data to carry out the research project.