Economics 2450A: Public Economics and Fiscal Policy I  
Dept. of Economics, Harvard University  
Fall 2019

Professors Raj Chetty and Stefanie Stantcheva  
Teaching Fellow: Anthony Yu

Course Description

This is the first of two courses offered in the Public Economics sequence at Harvard in 2019-20. This course covers basic issues in the optimal design of government policies. The goal of the course is to familiarize students with basic empirical methods and theoretical models in applied microeconomics, with a focus on connecting theory to data to inform economic policy. Topics include efficiency costs and incidence of taxation, inequality and intergenerational mobility, optimal income and capital taxation, and welfare analysis in behavioral models.

Students are strongly encouraged to attend the Public Economics Seminar. The schedule of seminar speakers is available at https://economics.harvard.edu/calendar/upcoming/seminars-events/public-policy.

Meeting Time and Location

Mondays and Wednesdays 1:30PM-2:45PM, Littauer Center 301 (Hansen-Mason Room). Note that there will be no class on October 23 and 30; instead, a makeup class will be held on November 8, 2019 from 9AM-12PM. See schedule on next page for more details.

Course Website

https://canvas.harvard.edu/courses/61259
Syllabus, problem sets, problem set solutions, readings, and handouts/lecture slides will be available on the Canvas site.

Students with Documented Disabilities

Students who may need an academic accommodation based on the impact of a disability must initiate the request with the Office of Accessible Education (OAE). Professional staff will evaluate the request with required documentation, recommend reasonable accommodations, and prepare an Accommodation Letter for faculty dated in the current quarter in which the request is made. Students should contact the OAE as soon as possible since timely notice is needed to coordinate accommodations. The OAE is located at 1360 Massachusetts Avenue (https://aeo.fas.harvard.edu).
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<td>Wed September 4</td>
<td>Raj</td>
<td>1. Introduction and Overview of Themes</td>
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<td>Mon September 9</td>
<td>Raj</td>
<td>2. Tax Incidence</td>
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<td>Wed September 11</td>
<td>Raj</td>
<td>3. GE Incidence and Capitalization</td>
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<td>Mon September 16</td>
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<td>Wed September 18</td>
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<td>5. Efficiency Costs: Applications</td>
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<td>Mon September 30</td>
<td>Raj</td>
<td>8. Inequality and Intergenerational Mobility</td>
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<td>Wed October 2</td>
<td>Raj</td>
<td>9. Neighborhood Effects</td>
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<td>Mon October 7</td>
<td>Nathan</td>
<td>10. Application to Housing Policy</td>
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<td>Wed October 9</td>
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<td>NO CLASS - Yom Kippur</td>
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<td>Mon October 14</td>
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<td>NO CLASS - Columbus Day</td>
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<td>Mon October 21</td>
<td>Stefanie</td>
<td>12. The U.S. Tax System. Optimal Tax Theory (I)</td>
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<td>Wed October 23</td>
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<td>Mon October 28</td>
<td>Stefanie</td>
<td>13. Optimal Tax Theory (II)</td>
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<td>Mon November 4</td>
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<td>14. Optimal Tax Theory (III)</td>
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<td>Wed November 6</td>
<td>Stefanie</td>
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<td>Stefanie</td>
<td>16. Makeup class 9AM-12PM.</td>
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<td>Social Preferences: Theory and Empirical Framework</td>
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<td>Social Preferences (II)</td>
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<td>Mon November 11</td>
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<td>NO CLASS - Veterans Day</td>
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<td>Wed November 13</td>
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<td>17. Tax Avoidance, Evasion, and Enforcement</td>
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<td>Mon November 18</td>
<td>Stefanie</td>
<td>18. New Dynamic Public Finance</td>
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<td>Wed November 20</td>
<td>Stefanie</td>
<td>19. New Dynamic Public Finance (II)</td>
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<td>Mon November 25</td>
<td>Stefanie</td>
<td>20. Capital Taxation</td>
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<td>NO CLASS - Thanksgiving</td>
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<tr>
<td>Mon December 2</td>
<td>Stefanie</td>
<td>21. Capital Taxation</td>
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Course Requirements

1. Two problem sets: 25% of grade. They will be assigned on Oct. 7 (due Oct 16), and Nov. 18 (due Nov. 25). Problem sets are due on Canvas and no late problem sets will be accepted.

2. Replication exercise (RE): 25% of grade. Replicate a recent empirical paper related to the topics in this course. Email the paper you choose to replicate to Anthony Yu by Sep. 30. The completed exercise is due on Nov. 18. Two of the replication exercises will be selected for a presentation in section. Instructions for the assignment are posted on the course website.

3. Final examination: 50% of grade. The date will be set by the Registrar’s Office later in the semester. Anthony Yu will hold a review section for the final a week before the exam.

Collaboration Policy

You are encouraged to consult with your classmates as you work on problem sets. However, after discussions with peers, make sure that you work through the problem yourself and ensure that any answers you submit for evaluation are the result of your own effort. In addition, you must list the names of students with whom you have collaborated on problem sets.

In contrast, all work on the replication exercise should be entirely your own. You must use appropriate citation practices to acknowledge the use of books, articles, websites, lectures, discussions, etc., that you used to complete the replication exercise.

Professor Chetty’s Office Hours: E-mail Maddie Marino <mjmarino@g.harvard.edu> to schedule an appointment.

Professor Stantcheva’s Office Hours: E-mail Michael O’Neil <michael_oneil@fas.harvard.edu> to schedule an appointment.

Teaching Fellow: Anthony Yu <ayu@g.harvard.edu>
Section and Office Hours: Time and location to be determined through a survey administered during first week of class. Sections will focus on solving models and helping students work through the details of the results and methods discussed in class.

Readings

For Raj’s part, a short list of required readings is presented on the next page. These readings illustrate the key methods and concepts in each section and it is important that you understand them well. A complete list of readings that includes references for all the papers discussed in class as well as additional reading for students who want to explore a topic in greater depth follows this short list.

For Stefanie’s part, the reading list of each lecture will be at the back of each slide set. Strongly recommended readings are in bold. The other readings are those to that can be read at your leisure.

Lecture slides
Slides and videos for previous versions of the course (prepared jointly with Gregory A. Bruich) are at: http://www.rajchetty.com/index.php/lecture-videos

The slides that have been posted should be used as a general guide rather than as a comprehensive list of the material that will be covered in this year’s course. We will post updated slides shortly before each lecture on the course website.
Required Readings for Lectures 1-11

PART I. Tax Incidence and Efficiency


PART II. Behavioral Welfare Economics


PART III: Inequality and Intergenerational Mobility


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*Bold* readings within each subsection are strongly encouraged and will be covered at length in the course; * indicates other recommended readings that will be discussed in class. Additional readings are provided for those who wish to explore a literature further, e.g. for the replication exercise.
Tax Incidence and Efficiency

Tax Incidence

Partial Equilibrium Incidence


Empirical Applications


General Equilibrium Incidence


Open Economy Applications


Capitalization and the Asset Price Approach


**Mandated Benefits**


**Excess Burden**

**Theory**


Applications


**Optimal Taxation**

* **Introduction to the Theory of Commodity Taxation**


**Introduction to the Theory of Income Taxation**


G. Laroque, 2005 “Indirect taxation is superfluous under separability and taste homogeneity: A simple proof”, Economic Letters, 87, 141-144.


**Capital Taxes & Mixed Taxation**


Econometrica, 1986


G. Laroque, 2005 “Indirect taxation is superfluous under separability and taste homogeneity: A simple proof”, Economic Letters, 87, 141-144.


Retirement Savings


Dynamic Taxation


Behavioral Welfare Economics and Applications

**Choice-Based Welfare Analysis**


**The measurement of “experienced utility”**


Kimball, Miles and Robert Willis, "Utility and Happiness," mimeo, University of Michigan, October 2006.


**Applications involving taxation**


**Applications involving addiction**


**Applications involving household saving**


**Applications involving energy**


Corporate Taxation

Payout and Corporate Profits Taxes


**Tax Incentives for Investment**


**Taxation and Capital Structure**


K. Hassett and R. G. Hubbard, “Tax Policy and Business Investment,” in A. Auerbach and M.


Organizational Form and International Taxation


Inequality and Intergenerational Mobility


R. Chetty, N. Hendren, P. Kline, and E. Saez, “Where is the Land of Opportunity? The


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**Education Policy and the Production of Public Goods**

**Motives for Government Intervention**


**Education Production Functions**


**Personnel Policy**


R. Chetty, J.N. Friedman, J.E. Rockoff, “Measuring the Impacts of Teachers II: Teacher Value-


BACKGROUND READING AND REFERENCES

General Public Economics


E. Saez Berkeley public economics lecture notes: [http://eml.berkeley.edu/~saez/course/course.html](http://eml.berkeley.edu/~saez/course/course.html)

References for a simple description of the U.S. tax system and government programs


References for applied econometrics methods used in this course


