In Public Finance II (681B) we plan to cover the following topics in the field of public economics: (1). Public Goods; (2) Economic Analysis of Public Policy: Affirmative Actions, Welfare Reform and Social Security Reforms; (3) Optimal Taxation and Tax Reform; (4). Private and Social Risk and Social Discount Rate.

The selected readings for the course will consist of classical papers and recent developments in each literature. The lectures will mostly cover important classical papers. Student will be expected to make two or more presentations of recent studies. Skills in presenting and articulating one’s ideas are very important for professional success in economics. We will expect active participation from everyone, not just the presenter. Students will be required to write a critical referee report on the papers the student presents in class.

Students will also be expected to either extend the short research paper written in the Fall term or write another short paper. Empirical papers, which can also be submitted for the econometrics paper requirement, are encouraged. There will also be a short oral final examination for the course.
0. YOUNG ECONOMIST'S GUIDE TO THE PROFESSION


1. PUBLIC GOODS

1.1 NEOCLASSICAL THEORY


1.2. STATIC MODELS OF PRIVATE PROVISION OF PUBLIC GOODS


1.3. DYNAMIC VOLUNTARY PROVISION OF PUBLIC GOODS

1.4 EXPERIMENTAL AND ECONOMETRIC STUDIES.

**Experimental Studies**


**Econometric Studies**


1.5 PREFERENCE REVELATION AND IMPLEMENTATION.

- Laffont, Chapter 5, “Incomplete Information in Public Economics.”


1.6 LOCAL PUBLIC GOODS

*Theoretical Issues: The Tiebout Hypothesis*


*Empirical Issues of local public finance and education*


2. PUBLIC POLICIES:

2.1 DISCRIMINATION AND AFFIRMATIVE ACTIONS

TASTE BASED DISCRIMINATION:


STATISTICAL DISCRIMINATION.


LOOKING FOR EVIDENCE OF DISCRIMINATION


Symposia on Discrimination in Product, Credit and Labor Markets, Journal of Economic Perspectives, Spring 1998, including the following articles and comments by Kenneth Arrow, James Heckman and Glenn Loury.
• Ian Aryes and Peter Siegelman (1995), "Race and Gender Discrimination in Negotiation for the Purchase of a New Car", American Economic Review.

EMPIRICAL STUDIES.

2.2 WELFARE REFORM
2.3 SOCIAL SECURITY REFORMS

The Role of Social Security


The Effects of Social Security


Piketty, T. “Theories of Persistent Inequality and Intergenerational Mobility”, In *Handbook of Income Distribution* ( Ch.: 8, pp429-476) ed. by Atkinson and Bourguignon, North Holland, 2000


Privatizing Social Security


3. THEORY OF TAXATION

3.1 TAX INCIDENCE

Static Tax Incidence: basic theory, incidence of capital tax, computational general equilibrium models


Dynamic Incidence: incidence in a growing economy, life cycle models, generational accounting.

- Feldstein, M. “Behavioral Responses to tax rates: evidence from TRA 86,” NBER working paper 5000, 1995
- Feldstein, M., "The Surprising Incidence of a Tax on Pure Rent: A New Answer to an Old Question, JPE, 85, 1977

3.2 Optimal Commodity Taxation and Excess Burden

- Atkinson and Stiglitz, Ch 12, “The Structure of Indirect Taxation”


• Tobin, J., ”Limiting the Domain of Inequality,” J of Law and Ec, Oct 1970

• Coate, S., “Altruism, the Samaritan’s Dilemma, and Government Transfer Policy.” AER 85(1) March 1995. 46-57

3.3 Optimal Income taxation

• Atkinson and Stiglitz ch 13,14


• Goolsbee, A., “Evidence on the high-income Laffer curve from six decades of tax reform,” BPEA Fall 1999

• Slemrod, J. “High Income Families and Tax Changes of the 1980’s; The Anatomy of Behavioral Response,”

3.4 Effects of taxes

On asset prices and risk taking

- Atkinson and Stiglitz, Ch 4.
- Bernheim, D., Lemke,R., “ Do Estate and Gift Taxes Affect the Timing of Private Transfers?”

On house values


Corporate behavior


3.5 Tax Reform
• Bush tax proposal, NYT January 9th, 2003


• Graetz ( recent proposal)


4. Private and Social Risk/Discounting Public Investments

• (*) Atkinson and Stiglitz, Ch 15 sec 4.

• (*) Arrow and Lind, “Uncertainty and the Evaluation of Public Investments,” AER, June 1970


• Manne, A. “General Equilibrium Modeling for Global Climate Change.” Working paper

• Cooper, R. “ International Approaches to Global Climate Change,” World Bank Research Observer, August 2000.