Economics 881.19
Effects of Taxes and Transfer Programs

Course Description

In this course, we will examine the literature on the effects of taxes and transfer programs. Topics that will be covered include (a) income taxes and labor supply, including alternative strategies for estimating these effects; (b) the employment, labor supply and “income” responses to income taxes, its progressivity, and to tax credits, such as the Earned Income Tax Credit (EITC); (c) participation in (take-up of) other transfer programs, such as AFDC/TANF, Social Security, and unemployment and disability insurance and their effects on employment, labor supply and other measures of well-being (e.g., economic welfare); (d) models and analyses of optimal taxation schemes and their distortionary impacts. A good deal of emphasis will be placed on the econometric models and methods used to estimate these effects, including structural, experimental and quasi-experimental models. We will examine the literature in these areas and assess the literature with the goal of identifying promising research topics and areas for possible application of innovative modeling approaches.

Course Structure, Requirements, and Grading

This will not be a lecture course. This is a “critically read and discuss papers” course.

All students in the course will be expected to read the papers before class and to actively participate in these discussions. To foster this participation and to fulfill the requirements of this course, all students are required to serve as a student leader for one class and to post comments and questions on the readings for the classes for which they are not student leaders. Below, I describe each of these student responsibilities.

Student Leader and Materials to be Prepared and Turned In

In their role as the student leader for a class session, the student is responsible for:

(a) Preparing a set of background notes on the readings to be covered in the class and a set of key discussion questions to focus the discussion. These notes can be in the form of presentation slides.

(b) Making a short (10 minutes maximum) presentation of the key points of the papers and guiding the discussion of the key questions during the class period.

(c) Writing a 10-15 summary paper on the readings and a critical assessment of general topic(s) and issues addressed in these papers. In summarizing the papers, the student should try
to cover the following:

- What is the main point(s) of the papers?

- If there were model developed in the papers, briefly summarize them. (This should be done with a minimum of equations, showing the models but not the derivations.)

- If the papers present empirical work, briefly summarize the (i) data used; (ii) econometric methods and/or identifying strategies that are used; and (iii) key empirical findings.

The summary notes or slides should be posted on the course website on Sakai no later than 6:00 p.m. on the day before the class the student is leading. More on where to post and find things on the course website below.

With respect to the summary paper, the student should:

- Identify the broader topics, issues and literatures to which the papers contribute.

- Identify and critically assess contributions of the paper to these topics, issues and literatures.

- Provide if possible, a brief summary of the current state of the literature on these topics and issues.

The last point will probably require you to read more than the assigned papers. You can draw from the more extensive list of papers provided in the syllabus below and/or you can consult with me about what other papers you might want to consult.

The summary paper will be due no later than December 5, 2014.

Posting Comments & Questions on Readings for Classes

As noted above, all students are expected to read all of the papers, whether they are acting as a student leader or not. To help encourage everyone to keep up with the readings and the class, all students are expected to post their comments and questions on the readings before class. These comments will be posted to the Forum section of the Sakai course website.

Sakai Course Website

All of the classes in this course will be organized on the course website on Sakai, under the Resources and Forums sections listed in the menu on the lefthand side of the screen when you are logged in to ECON.881.19.F14 on Sakai.

Within the folder “Student Leader Summaries & Slides” in the Resources section of the Sakai course website, there are subfolders for each class in the courses, labeled by the day and date of the class. Within each Class subfolder students will find:

(a) list of the papers to be covered for that class;
(b) *summary notes* or *slides* of the *student leader(s)* for that class, that the student will post before class as an attachment.

As noted above, the student leader(s) should have their summary notes posted by 6:00 p.m. on the day before the class. This will allow student notes at least **24 hours before the class** she/he is leading.

Within the folder use is labeled, “Course Topics & Papers Forum,” in the *Forum* section of the course website, a separate *Topic* has been set up for each class, with headings indicating the date of and topic for the class. Under each Class, all students are encouraged to *post comments and questions* about the readings for each class. To post their comments/questions, students should go to the Class listed in the Course Topics & Paper Forum and either click on the *Post New Thread* to start a new comment or click on *Reply* within an existing thread to add a comment/question. Students (and me!) should read the threads before class so that we can make efficient use of our time in class, focusing on issues that the class finds most interesting and/or about which there are more questions.

**Schedule for Student Leaders**

The following is the schedule for the leaders of the various classes. The topics for each of the classes are listed on pp. 4 and 5. I tried to accommodate students’ preferences as much as I could, but there were a few cases in which that was not possible. For the classes in which two students are designated as leaders, I am glad to discuss possible ways to divide up the work for the presentations, but each student should write summary papers that cover all of the material assigned for the class.

<table>
<thead>
<tr>
<th>Class</th>
<th>Date</th>
<th>Student/Faculty Leader(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 1</td>
<td>Wed., Oct. 15</td>
<td>Hotz</td>
</tr>
<tr>
<td>Class 2</td>
<td>Mon., Oct. 20</td>
<td>Hotz</td>
</tr>
<tr>
<td>Class 3</td>
<td>Wed., Oct. 22</td>
<td>Eugene Tan</td>
</tr>
<tr>
<td>Class 4</td>
<td>Mon., Oct. 27</td>
<td>Laurel Wheeler</td>
</tr>
<tr>
<td>Class 5</td>
<td>Wed., Oct. 29</td>
<td>Maria Zhu</td>
</tr>
<tr>
<td>Class 6</td>
<td>Mon., Nov. 3</td>
<td>Chuhang Yin</td>
</tr>
<tr>
<td>Class 7</td>
<td>Wed., Nov. 5</td>
<td>Xian Jiang; Chelsea Garber</td>
</tr>
<tr>
<td>Class 8</td>
<td>Mon., Nov. 10</td>
<td>Danyang Su</td>
</tr>
<tr>
<td>Class 9</td>
<td>Wed., Nov. 12</td>
<td>Gina Turrini</td>
</tr>
<tr>
<td>Class 10</td>
<td>Mon., Nov. 17</td>
<td>Javier Romero Haaker</td>
</tr>
<tr>
<td>Class 11</td>
<td>Wed., Nov. 19</td>
<td>Rebecca Lehrman</td>
</tr>
<tr>
<td>Class 12</td>
<td>Mon., Nov. 24</td>
<td>Maria Carnovale; Rachel Sayers</td>
</tr>
</tbody>
</table>
Schedule of Topics and Papers

Class 1: Wed, Oct. 15  Trends for Labor Supply and Taxes


Class 2: Mon, Oct. 20  Overview of Static & Dynamic Models of Labor Supply

Readings: Handouts on Static Labor Supply. Read Keane (2011a), Sects. 3.1 and 4; Blundell and MaCurdy (1999), Section 4.1.


Readings: Feldstein (1995a); Moffitt and Wilhelm (2000); Gruber and Saez (2002). See also Meghir and Phillips (2011), Sections 3.1.4 & 3.2.5 and Saez, Slemrod & Giertz (2009).


Readings: Handout on Life Cycle Labor Supply Models; MaCurdy (1981); Heckman and MaCurdy (1980); Altonji (1986); Browning, Deaton and Irish (1985). See also MaCurdy (1985), Blundell & MaCurdy (1999), Section 4.2; Blundell, MaCurdy & Meghir (2007). Section 6.1; Keane (2011a), Sects. 3.2 and 4.
**Class 7**: Wed, Nov. 5  

See also Blundell & Walker (1986); Keane (2011a).

**Class 8**: Mon, Nov. 10  

See also Blundell & Walker (1986); Keane (2011a).

**Class 9**: Wed, Nov. 12  
Estimating Effects of Cash- & Tax-Based Transfer Programs on Labor Supply

Readings: Moffitt (2002).  
See also Moffitt (1992).

**Class 10**: Mon, Nov. 17  
Estimating Effects of Cash- & Tax-Based Transfer Programs: Modeling Multiple Program Participation


**Class 11**: Wed, Nov. 19  
Estimating Effects of Cash- & Tax-Based Transfer Programs: Effects on Employment of Low-Skilled Women

See also Hotz and Scholz (2003).

OR

Estimating Effects of Cash- & Tax-Based Transfer Programs: Dynamics


**Class 12**: Mon, Nov. 24  
Optimal Taxation & Transfer Programs

See also Mirrlees (1971); Stern (1976); Brewer, Saez & Shephard (2010).

OR

Estimating the Effects of Taxes and Transfers on Other Outcomes

Reading List

1. The Supply of Labor

1.1 Survey & Overview Papers


1.2 Optimal Income Tax Models


1.3 **Static Labor Supply Model**


1.4 **Taxes & Labor Supply: Static Model Case**


1.5 The Life Cycle Labor Supply Model with Exogenous Wage Rates


**1.6 Life Cycle Labor Supply Model with Human Capital Accumulation & Endogenous Wages**


**1.7 Effects of “Other Taxes” on Employment & Labor Supply**


**2. The Impacts of Taxes on Other Outcomes & Elasticity of Taxable Income**


Bruce, D. (2000). “Effects of the United States Tax System on Transitions into Self-


3. **Taxes & Effects of Social Programs on Labor Supply**

3.1 **Theoretical Effects of Cash Welfare**


3.2 **Welfare Programs and Labor Supply**


3.3 The Earned Income Tax Credit


Social Security and Labor Supply


16


**Labor Supply and Medicaid**
