

**PUBLIC ECONOMICS**

Jonathan Leape, KSW.G406  
Office Hour: Wednesdays 9:30-10:30  
Secretary: Geraldine Foley, KSW.G405

Camille Landais, S4xx  
Office hour: TBA  
Secretary: xxx

**Lectures: Mondays 16:30-18:00, TW1.U8**

**COURSE OUTLINE AND READING LIST****Aims:**

- To give students an appreciation of the analytical methods in economics for the study of the public sector and the role of the state in principle and in practice.
- To provide a thorough grounding in the principles underlying the role of the state, the design of social insurance and the welfare state and the design of the tax system.
- To enable students to understand the practical problems involved in implementing these principles.

**Objectives:** By the end of the course the students should be able to:

- Discuss critically key issues in public economics.
- Present a coherent argument orally and in writing on topics in public economics.
- Demonstrate a familiarity with a range of policy issues and relevant analytical tools.

**Content:**

The Michaelmas term lectures are given by Jonathan Leape. The first part of the term focuses on the issues of equity, efficiency and the role of the state. We begin by looking at questions of equity and alternative theories of the role of the state. We then look at problems of public choice and political economics, and go on to consider the implications of recent research in behavioural economics for welfare analysis. We conclude the first part by discussing issues of market failure, public goods and externalities, including environmental policy. The second part is devoted to taxation, savings and investment. We consider the implications of behavioural economics for savings policy, assess whether there is a pensions crisis and explore how taxes affect investment, from both domestic and international perspectives. We conclude by examining who really pays taxes: the issues of tax incidence and tax evasion.

The Lent term lectures are given by Camille Landais. The focus of the first part of the term is on poverty alleviation, social insurance and education. We examine income inequality and the role of welfare programmes and then review social insurance in theory and practice. We then look separately at issues relating to health and to education. The second part is devoted to taxation, behavioural responses and the design of tax policy. We begin by examining the effects of taxes and transfers on labour supply and migration, and then go on to consider incomes and behavioural responses at the top of the income distribution. We look at the implications of taxation for economic efficiency and explore

the optimal taxation of commodities and income. The final lecture is devoted to the question of development and public finance.

### **Reading:**

The recommended textbook for the course is **Jonathan Gruber (2011) *Public Finance and Public Policy*, 3<sup>rd</sup> edition, Worth Publishers**. This up-to-date textbook will be used heavily in both terms and students are strongly encouraged to purchase the text for ease of reference. Copies will also be available in the Library Course Collection. The second edition of the text (Gruber, 2007) is less up to date but has similar coverage (note that the chapter and section references for the 2<sup>nd</sup> edition are identical to those in the 3<sup>rd</sup> edition).

Almost all of the journal articles in the reading list can be accessed via the LSE Library electronic journals collection. Hyperlinks are given for working and discussion papers. CC refers to Course Collection.

### **General:**

J Gruber (2011) *Public Finance and Public Policy*, 3<sup>rd</sup> edition, Worth Publishers. [CC HJ141 G88] [or Gruber (2007), 2<sup>nd</sup> edition]

N Barr (2012), *The Economics of the Welfare State*, 5<sup>th</sup> ed., OUP [CC HB99.3 B26].

Institute for Fiscal Studies, *Mirrlees Review: Reforming the Tax System for the 21<sup>st</sup> Century*, Volume 1 (2010): Dimensions of Tax Design, Volume 2 (2011): Tax by Design. Oxford University Press, Oxford. Available online at: <http://www.ifs.org.uk/mirrleesReview>

A B Atkinson and J E Stiglitz (1980), *Lectures on Public Economics*, McGraw Hill (a good graduate textbook, now somewhat dated) [CC HJ141 A87].

### **Institutional and statistical:**

On developments in public spending in the UK, see H Glennerster (2003), *Understanding the finance of welfare* (Policy Press); or H Glennerster and J Hills (eds) (1998), *The State of Welfare: The economics of social spending* (Oxford) [CC HV245 S79].

For details of benefit rates and other social security rules, see the Department for Work and Pensions website (<http://www.dwp.gov.uk>).

On the structure of taxation in the UK, see IFS (2011) *A Survey of the UK Tax System*, Briefing Note no. 9 (<http://www.ifs.org.uk/bns/bn09.pdf>) and the HM Revenue and Customs website, (<http://www.hmrc.gov.uk>). The Institute for Fiscal Studies is an independent policy research institute and its website (<http://www.ifs.org.uk>) has a wide range of useful publications. The HMRC website includes information on the tax structure and statistics on tax payments (by income group, by type of tax, etc.) and overall revenues raised.

The UK Treasury website (<http://www.hm-treasury.gov.uk/>) provides a range of documents on economic policies and the public finances, including the annual publication, *Financial Statement and Budget Report* (the 'Red Book'), published each year on Budget Day.

The National Statistics website (<http://www.statistics.gov.uk/>) provides a wide range of current and historical data on economic and social indicators (as presented in the annual publications such as *National Income and Expenditure* (the 'Blue Book') and *Social Trends*).

For comparative international fiscal data, information and analysis, useful sources include the International Monetary Fund, IMF (<http://www.imf.org/>), the World Bank (<http://www.worldbank.org/>) and the Organisation for Economic Cooperation and Development, OECD (<http://www.oecd.org>).

### **Review:**

Students wishing to review their microeconomic theory should consult a textbook on intermediate microeconomic theory, such as Morgan, Katz and Rosen (2006) *Microeconomics*, McGraw Hill (CC HB172 M84) or J Perloff (2008) *Microeconomics: Theory & applications with calculus*, Pearson (CC HB172 P45).

### **Please note:**

The starred items are compulsory. But you should make **no** attempt to read everything on the reading list; the supplementary readings are provided for students interested in pursuing a particular topic in more depth or for those seeking an alternative approach to that in the starred readings. ***It is not important to read a huge amount, but vastly important really to understand what you do read.***

### **Classes:**

The course includes weekly one-hour classes, beginning in week 4 of the Michaelmas Term. The organisation of classes is set out in the section following the course outline and reading list. Students will be expected to submit four pieces of written work during the year: a class presentation and a termly essay on the material presented in the Michaelmas Term – and similarly for the material presented in the Lent Term.

### **Examination:**

The three-hour examination is divided into three sections. The first section is short-answer questions; the second and third sections are long-answer questions drawn from the material covered in the Michaelmas and Lent terms, respectively. Students are required to answer questions from all three sections. Note that the current structure of the course was adopted in 2007-8.

## Part I, Lectures 1-10: Jonathan Leape

**Background reading:** Gruber (2011), chs 2, 3

### Equity, efficiency and the role of the state

#### 1. Equity and the role of the state

Equity, social choices and preferences. Ordinal utility and the Pareto principle. Charity and redistribution. Cardinal utility and the social welfare function. Alternative theories of the role of the state. Vertical and horizontal equity. Poverty and inequality: definitions and measurement.

- \* Barr (2012), chs. 2, 3, 5.
- \* Gruber (2011), chs 2 (especially 2.3), 17 (section 17.1) [a brief introduction]

#### 2. Public choice, political economics and the scope of government

Fundamental issues in public choice: preference revelation, aggregation of preference. Arrow's Impossibility Theorem. Voting models and the new political economy. New contract theory and the scope of government.

- \* Gruber (2011), ch. 9
- \* A Shleifer (1998), "State versus Private Ownership", *Journal of Economic Perspectives*, 12:4, Fall, 133-150. <http://www.jstor.org/stable/2646898>  
Persson, T. and G Tabellini (2002), "Political economics and public finance", in Auerbach, A. and M. Feldstein (eds.), *Handbook of Public Economics*, Vol III, North-Holland: Amsterdam., see especially pp 1-25. (<http://papers.nber.org/papers/W7097>).
- \* O Hart, A Shleifer and R Vishny (1998), "The proper scope of government: Theory and an application to prisons," *Quarterly Journal of Economics*, 112:4, 1127-1161. <http://www.jstor.org/stable/2951268>

#### 3. Behavioural public economics and welfare analysis

Behavioural public economics: Rethinking positive and normative analysis. Principles: Bounded rationality, bounded willpower, bounded selfishness. Behavioural economics and welfare analysis.

- \* R Mullainathan, S and R Thaler (2001), "Behavioral economics", *International Encyclopaedia of the Social and Behavioral Sciences*, also available as MIT Working Paper 00-27. <http://www.economics.harvard.edu/faculty/mullainathan/files/Encyclopedia.pdf>
- \* Bernheim, B D and A Rangel (2005), "Behavioral public economics: Welfare and policy analysis with non-standard decision makers", NBER Working Paper 11518, July, pp 2-15 only. [<http://www.nber.org/papers/w11518>]

#### 4. Efficiency, market failure and public goods

The first fundamental theorem of welfare economics. Source of market failure and the role for government intervention: competition failure, public goods, externalities, incomplete markets, information failures. The theory of public goods: non-rivalness and non-excludability; efficiency conditions. Lottery financing for public goods.

- \* Gruber (2011), chs. 2 (especially section 2.3) and 7
- \* Morgan, J. (2000), "Financing Public Goods by Means of Lotteries", *Review of Economic Studies*, **67**, 761-784. <http://www.jstor.org/stable/2695947>

Stiglitz, J., (2002) "Information and the Change in the Paradigm in Economics", *American Economic Review*, 92:3, June, 460-502. <http://www.jstor.org/stable/3083351>

Bernheim, B D and A Rangel (2005), "Behavioral public economics: Welfare and policy analysis with non-standard decision makers", NBER Working Paper 11518, July, pp 53-62 only (warm glow theory). [<http://www.nber.org/papers/w11518>]

#### 5. Externalities and environmental policy

The theory of externalities. Market failure and the conditions for economic efficiency. Types of externalities. Private bargaining solutions versus government intervention. Alternative government policies: taxes, congestion charges, regulation, and zoning. Climate change.

- \* Gruber (2011), chs 5, 6 (especially sections 6.1 and 6.2)
- \* Fullerton, D, A Leicester and S Smith (2010) "Environmental Taxes", *Dimensions of Tax Design* (The Mirrlees Review, vol. 1), ch. 5. Part A only (pp 423-449). <http://www.ifs.org.uk/mirrleesreview/dimensions/ch5.pdf>

J Leape (2006), "The London Congestion Charge", *Journal of Economic Perspectives*, 20:4, Fall, 157-176. [<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.20.4.157>]

N H Stern (2008), "The economics of climate change", *American Economic Review*, **98**, 1-37. [<http://dx.doi.org/10.1257/aer.98.2.1>]

Pizer, William (1999), "Choosing price or quantity controls for greenhouse gases", Resources for the Future, *Climate Issues Brief* 17. [<http://www.rff.org/RFF/Documents/RFF-CCIB-17.pdf>]

HM Treasury, *The Stern Review: The Economics of Climate Change*, October 2006 (see especially part IV: "Policy responses for mitigation") [[http://www.hm-treasury.gov.uk/independent\\_reviews/stern\\_review\\_economics\\_climate\\_change/stern\\_review\\_index.cfm](http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_index.cfm)]

The Economist, various articles and online debates – including:

- "Getting Warmer: A special report on climate change and the carbon economy" (5 December 2009): <http://www.economist.com/node/14994872>
- "How to live with climate change" (25 November 2010): <http://www.economist.com/node/17575027>

## **Taxes, savings and investment**

### **6. Taxation and savings**

The theory of how taxation affects savings. The two-period "Fisher" life-cycle model of saving. Problems with the standard life-cycle model. Behavioural models of saving. Optimal taxation of savings. Applying the Fisher model. Empirical analysis: behavioural models and institutional design.

- \* Gruber (2011), ch 22
- \* B D Bernheim and A Rangel (2005), "Behavioral public economics: Welfare and policy analysis with non-standard decision makers", NBER Working Paper 11518, [<http://www.nber.org/papers/w11518>] Sections 3 (especially pp15-28, 33-35) and 6.
  
- J Choi, D Laibson, B Madrian, and A Metrick (2004) "For Better or For Worse: Default Effects and 401(k) Savings Behavior" in David Wise, ed., Perspectives in the Economics of Aging. Chicago, IL: University of Chicago Press, 2004, pp. 81-121.  
[<http://www.economics.harvard.edu/faculty/laibson/files/forbetter.pdf>]
- R G Hubbard and J Skinner (1996), "Assessing the effectiveness of savings incentives", *Journal of Economic Perspectives*, 10:4, 73-90.  
[<http://www.jstor.org/stable/2138555>]
- B D Bernheim (1999), 'Taxation and Saving', NBER Working Paper 7061 [<http://www.nber.org/papers/w7061>], published in A Auerbach and M Feldstein, *Handbook of Public Economics*, (pp 1-10, 28-38, 46-52, 65-66)

### **7. Retirement Pensions**

Funded versus unfunded ("pay-as-you-go") state pensions. Is there a pensions crisis? Intergenerational and intragenerational equity. Efficiency: effects on savings and retirement decisions. Options for reform.

- \* N Barr and P Diamond (2006), 'The Economics of Pensions', *Oxford Review of Economic Policy*, Vol. 22. No. 1, Spring, pp. 15-39.  
<http://oxrep.oxfordjournals.org/cgi/reprint/22/1/15?ijkey=9DjQZbG8zPR17qI&keytype=ref>
- \* N Barr (2006), 'Pensions: Overview of the Issues', *Oxford Review of Economic Policy*, Vol. 22. No. 1, Spring, pp. 1-14.  
<http://oxrep.oxfordjournals.org/cgi/reprint/22/1/1?ijkey=xUhuLJ3z5zjh3d8&keytype=ref>
- \* Gruber (2011), ch 13 (state pensions: US issues), ch 12 (social insurance)

Barr (2012), Ch. 7.

The Economist (2009), "A slow-burning fuse: A special report on ageing populations", June 27, 2009 (especially pp. 3-5 ('Introduction'), 9-11 ('Scrimp and Save', and 11-13 ('Work till you drop'))  
<http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=42527197&site=ehost-live>  
<http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=42527205&site=ehost-live>

<http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=42527207&site=ehost-live>

“Pensions: Challenges and Choices”, The First Report of the UK Pensions Commission, October 2004.

[<http://www.webarchive.org.uk/wayback/archive/20070717120000/http://www.pensionscommission.org.uk/www.pensionscommission.org.uk/publications/2004/annrep/index.html>]

“A New Pension Settlement for the Twenty-First Century”, The Second Report of the UK Pensions Commission, November 2005.

[<http://www.webarchive.org.uk/wayback/archive/20070717120000/http://www.pensionscommission.org.uk/www.pensionscommission.org.uk/publications/2005/annrep/annrep-index.html>]

## **8. Taxation and investment: Domestic and international issues**

*Domestic issues:* The structure of corporation tax. How taxes affect investment decisions. Conditions for taxation to be neutral. The tax wedge and effective tax rates. Empirical evidence.

*International issues:* Tax effects on FDI and tax avoidance. Capital export neutrality (CEN), capital import neutrality (CIN) and capital ownership neutrality (CON). ‘Source’ principle versus ‘residence’ principle of taxation. Harmonisation of corporate taxation in the EU. Tax coordination versus tax competition.

*Domestic issues:*

- \* Gruber (2011), ch. 24 (sections 24.1 – 24.5, 24.7)
- \* R Chetty and E Saez (2006), “The effects of the 2003 dividend tax cut on corporate behaviour: Interpreting the evidence”, *American Economic Review* 96, (May), 124-129. [<http://dx.doi.org/10.1257/000282806777211838>]
- \* Cummins, J G, Hassett, K A, and Hubbard, R G (1995), ‘Have tax reforms affected investment?’, *Tax Policy and the Economy*, **9**, NBER and MIT Press, Cambridge. See pp. 131-133, 136-142. [<http://www.nber.org/chapters/c10893.pdf>]

*International issues:*

- \* Gruber (2011), ch. 24 (section 24.6)
- \* Griffiths, R, J Hines and P Sorensen (2010) “International tax competition”, *Dimensions of Tax Design* (The Mirrlees Review, vol. 1), ch 10. See especially sections 10.3, 10.4.1 and 10.4.2 (pp 923-937). [<http://www.ifs.org.uk/mirrleesreview/dimensions/ch10.pdf>]

## Who really pays taxes?

### 9. Tax incidence

Defining tax incidence. Partial equilibrium analysis of tax incidence and the role of elasticities. General equilibrium analysis: the Harberger two-sector model. Impact of globalisation. An empirical case study: the incidence of the US Earned income tax credit. New behavioural research in salience and taxation.

- \* Gruber (2011), ch. 19
- \* J Rothstein (2008) "The Unintended Consequences of Encouraging Work: Tax Incidence and the EITC", Princeton University, CEPS Working paper no. 165, May 2008. Sections 1,8 only.  
[<http://www.princeton.edu/ceps/workingpapers/165rothstein.pdf>]
- \* R Chetty, A Looney and K Kroft (2009) "Salience and Taxation: Theory and Evidence", *American Economic Review* 99:4 (September), 1145-1177. (see, especially, pp 1145-1149, 1175-1176) [<http://dx.doi.org/10.1257/aer.99.4.1145>]

Fullerton, D and G Metcalf (2002), "Tax incidence", in A Auerbach and M Feldstein, eds., *Handbook of Public Economics*, Amsterdam: Elsevier, Vol. 4, pp. 1787-1872. (Available as NBER W8829:  
<http://www.nber.org/papers/w8829>)

### 10. Tax evasion

Modelling tax evasion using expected utility and the two-state model. Policy instruments for fighting evasion: tax rates, penalty rates and auditing probabilities. Weaknesses of the expected utility approach to tax evasion. A game theoretic approach.

- \* J Cullis and P Jones (1998) *Public Finance and Public Choice*, 2<sup>nd</sup> ed, OUP, ch.8 [**Course pack**; CC HJ141 C96]
- \* J Slemrod (2007), "Cheating Ourselves: The Economics of Tax Evasion", *Journal of Economic Perspectives*, 21: 1, Winter, 25-48. <http://www.atypon-link.com/doi/pdfplus/10.1257/jep.21.1.25> , pp 35-45 only.

Morgan, Katz and Rosen (2006) *Microeconomics*, McGraw Hill, pp. 192-195. CC HB172 M84 [good presentation of state contingent model]

Hindriks and G Myles (2006) *Intermediate Public Economics*, MIT Press, ch 16 [game theoretic model].

H J Kleven, M Knudsen, C T Kreiner, S Pedersen and E Saez (2011), "Unwilling or Unable to Cheat? Evidence from a Tax Audit Experiment in Denmark", *Econometrica* 79, 2011, pp. 651-692  
[http://personal.lse.ac.uk/KLEVEN/Downloads/MyPapers/Publications/KlevenEtAl\\_ECTA\\_May2011.pdf](http://personal.lse.ac.uk/KLEVEN/Downloads/MyPapers/Publications/KlevenEtAl_ECTA_May2011.pdf)



## Part 2, Lectures 11-20: Camille Landais

### Background reading

\* Chapters 2, 3 and 18 in Gruber (2011).

### 11. Empirical methods for treatment evaluation

Angrist, J. and A. Krueger (1999), "Empirical Strategies in Labor Economics", in Ashenfelter and Card, *Handbook of Labor Economics*.

Angrist, J. (2008), "Treatment Effects", *The New Palgrave*, <http://econ-www.mit.edu/files/32>

Duflo, Esther, Rachel Glennerster, and Michael Kremer. 2008. "Using Randomization in Development Economics Research: A Toolkit." In *Handbook of Development Economics*, Volume 4, ed. T. Paul Schultz and John Strauss, 3895–3962. Amsterdam and San Diego Elsevier, North-Holland.

Angrist, Joshua D., and Victor Lavy. 1999. "Using Maimonides' Rule to Estimate the Effect of Class Size on Scholastic Achievement." *Quarterly Journal of Economics*, 114(2): 53375.

Krueger, Alan B. 1999. "Experimental Estimates of Education Production Functions." *Quarterly Journal of Economics*, 114(2): 497532

### 12. Poverty alleviation

(i) Inequality and poverty across countries. (ii) Different types of social programs. (iii) The moral hazard costs of low-income support. (iv) Reducing moral hazard: tagging, in-kind benefits, and ordeals. (v) Lessons from the U.S. welfare reform efforts.

\* Chapter 17 in Gruber (2011).

Blank, R. (2003). "US Welfare Reform: What's Relevant for Europe?" *CESifo Economic Studies* 49, 49-74.

Currie, J. (2004). "The Take Up of Social Benefits." NBER Working Paper No. 10488.

\* Nichols, A. L. and R. Zeckhauser (1982). "Targeting Transfers through Restrictions on Recipients." *American Economic Review* 72(2), 372-77.

D. A. Black, J. A. Smith, M. C. Berger, and B. J. Noel. Is the threat of reemployment services more effective than the services themselves? evidence from random assignment in the UI system. *American Economic Review*, 93(4):13131327, Sept. 2003

### 13. Social insurance

(i) Why do people value insurance? (ii) Why have social insurance? Asymmetric information and adverse selection. (iii) What are the problems with social insurance? Crowd-out and moral hazard. (iv) Applications to Unemployment Insurance and Disability Insurance.

\* Chapters 12 and 14 in Gruber (2011).

Benítez-Silva, H., M. Buchinsky, and J. Rust (2004). "How Large Are the Classification Errors in the Social Security Award Process?" NBER Working Paper 10219.

\* Meyer, B. D. (2002). "Unemployment and workers' compensation programmes: rationale, design, labour supply and income support." *Fiscal Studies* 23(1), 1-49.

Chetty, Raj, A general formula for the optimal level of social insurance. *Journal of Public Economics*, 90(10-11):1879-1901, 2006.

Landais, Camille, Assessing the welfare effects of unemployment benefits using the regression kink design. PEP working paper series, 16, STICERD, London School of Economics, Jul 2012.

## 14. Health

(i) Reasons for government intervention in health care markets. (ii) The moral hazard cost of subsidized health insurance and the price elasticity of health care demand. (iii) Optimal health insurance. (iv) What is the effect of public health insurance on health outcomes? (v) The rising health care expenditures over time.

\* Chapters 15 and 16 in Gruber (2011).

\* Currie, J. and J. Gruber (1996). "Saving Babies: The efficacy and Cost of Recent Changes in the Medicaid Eligibility of Pregnant Women." *Journal of Political Economy* 104, 1263-1296.

\* Poterba, J. (1995). "Government Intervention in the Markets for Education and Health Care: Why and How?" In V. Fuchs (ed.), *Individual and Social Responsibility*, University of Chicago Press, Chicago.

Propper, C. (2001). "Expenditure on Healthcare in the UK: A Review of the Issues." *Fiscal Studies* 22(2), 151-183.

A. Finkelstein, S. Taubman, B. Wright, M. Bernstein, J. Gruber, J. P. Newhouse, H. Allen, K. Baicker, and T. O. H. S. Group. The oregon health insurance experiment: Evidence from the first year. Working Paper 17190, National Bureau of Economic Research, July 2011.

## 15. Education

(i) Reasons for government intervention in education: market failure and redistribution. (ii) The crowd-out effect of free public schools. (iii) The arguments for and against school choice and school vouchers. (iv) Measuring the returns to education. (v) Human capital investment versus job market signalling.

\* Chapter 11 in Gruber (2011).

Ashenfelter, O. and C. Rouse (1998). "Income, Schooling and Ability: Evidence from a New Sample of Identical Twins." *Quarterly Journal of Economics* 113, 253-84.

\* Duflo, E. (2001). "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment." *American Economic Review* 91, 795-813.

Hanushek, E. A. and J. Luque (2003). "Efficiency and equity in schools around the world." *Economics of Education Review* 22, 481-502.

\* Poterba, J. (1995). "Government Intervention in the Markets for Education and Health Care: Why and How?" In V. Fuchs (ed.), *Individual and Social Responsibility*, University of Chicago Press, Chicago.

N. Gordon (2004), Do federal grants boost school spending? evidence from title I. *Journal of Public Economics*, 88(9-10):17711792, 2004.

Rouse, C. (1998). "Private School Vouchers and Student Achievement: An Evaluation of the Milwaukee Parental Choice Program." *Quarterly Journal of Economics* 113, 553-602.

## **16. Taxes, transfers, and labour supply**

(i) The theory of tax and labour supply: income vs substitution effects, hours worked vs labour force participation. (ii) Evidence on tax and labour supply. (iii) In-work benefit programs: theory and evidence.

\* Chapter 21 in Gruber (2011).

\* Eissa, N. (1995). "Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment." NBER Working Paper No. 5023.

\* Blundell, R. (2001). "Welfare Reform for Low Income Workers." *Oxford Economic Papers* 53, 189-214. Or, alternatively, "Evaluating the Labour Supply Responses to 'In-Work' Benefit Reforms for Low Income Workers," in M. Buti, P. Sestito, and H. Wijkander (eds.), *Taxation, Welfare and the Crisis of Unemployment in Europe*, Edward Elgar, Cheltenham.

Eissa, N. and J. Liebman (1996). "Labor Supply Response to the Earned Income Tax Credit." *Quarterly Journal of Economics* 61, 605-37.

Heckman, J. J. (1993). "What Has Been Learned About Labor Supply in the Past Twenty Years?" *American Economic Review Papers and Proceedings* 83, 116-121.

## **17. Taxes, transfers, and migration**

(i) The effect of local taxes on migration within a country. (ii) The effect of taxes on international migration. (iii) The effect of welfare benefits on migration.

Borjas, G. J. (1999). "Immigration and Welfare Magnets." *Journal of Labor Economics* 17, 607-637.

\* Feldstein, M. and M. V. Wrobel (1998). "Can state taxes redistribute income?" *Journal of Public Economics* 68, 369-396.

\* Kleven, H. J., C. Landais, and E. Saez (2009). "Taxation and the International Mobility of Superstars: Evidence from the European Football Market." Working

Paper, December 2009.

[http://personal.lse.ac.uk/KLEVEN/Downloads/MyPapers/workingPapers/FootballTax\\_Dec09.pdf](http://personal.lse.ac.uk/KLEVEN/Downloads/MyPapers/workingPapers/FootballTax_Dec09.pdf)

## 18. Incomes and behavioural responses at the top of the distribution

(i) The long-run evolution of top income shares and top marginal tax rates. (ii) The elasticity of taxable income: concept, policy relevance, and estimates. (iii) The high-income Laffer curve.

\* Brewer, M., E. Saez, and A. Shepard (2008). "Means Testing and Tax Rates on Earnings." IFS Working Paper, forthcoming in *The Mirrlees Review: Reforming the Tax System for the 21st Century*, Oxford University Press.

[http://www.ifs.org.uk/mirrleesreview/press\\_docs/rates.pdf](http://www.ifs.org.uk/mirrleesreview/press_docs/rates.pdf)

Feldstein, M. (1995). "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act." *Journal of Political Economy* 103, 551-572.

\* Saez, E. (2004). "Reported Incomes and Marginal Tax Rates, 1960-2000: Evidence and Policy Implications," in J. Poterba (ed.), *Tax Policy and the Economy* vol. 18. MIT Press, Cambridge, MA.

<http://emlab.berkeley.edu/users/saez/NBER10273TPE04.pdf>

Saez, E., J. Slemrod, and S. Giertz (2009). "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review." Forthcoming in the *Journal of Economic Literature*.

<http://emlab.berkeley.edu/users/saez/saez-slemrod-giertzNBER09.pdf>

## 19. Tax inefficiencies and optimal commodity taxation

(i) Reasons for using commodity taxes. (ii) The deadweight loss from commodity taxes. (iii) The Ramsey optimal tax problem and the Inverse Elasticity Rule. (iv) The uniformity versus selectivity debate. (v) Extensions: equity concerns, externalities, internalities. (vi) Cigarette taxation as a case study.

\* Chapter 20 in Gruber (2011).

\* Slemrod, J. (1990). "Optimal Taxation and Optimal Tax Systems." *Journal of Economic Perspectives* 4, 157-178.

Stern, N. (1990). "Uniformity Versus Selectivity in Indirect Taxation." *Economics and Politics* 2, 83-108.

## 20. Optimal income taxation

(i) The fundamental theorems of welfare economics and the informational constraint in income taxation. (ii) The deadweight loss from income taxation. (iii) The optimal income tax problem. (iv) The relationship between optimal income taxation and the Laffer curve. (v) The optimal marginal tax rate at the top.

\* Chapter 20 in Gruber (2011).

\* Brewer, M., E. Saez, and A. Shepard (2008). "Means Testing and Tax Rates on Earnings." IFS Working Paper, forthcoming in *The Mirrlees Review: Reforming the Tax System for the 21st Century*, Oxford University Press.  
[http://www.ifs.org.uk/mirrleesreview/press\\_docs/rates.pdf](http://www.ifs.org.uk/mirrleesreview/press_docs/rates.pdf)

P. Diamond and E. Saez. The case for a progressive tax: From basic research to policy recommendation. *Journal of Economic Perspectives*, 25(4):165-190, Nov. 2011.

## **EC325A PUBLIC ECONOMICS CLASSES**

### **Class work**

You will be asked to do *two class presentations* (to be submitted no later than one week after the class presentation *either* in the form of a presentation handout *or* as an essay), one on a Michaelmas term topic and one on a Lent Term topic, *plus two termly essays*, to be submitted via Moodle, by noon on Wednesday, January 11<sup>th</sup> (for the Michaelmas term topics) and by noon on Wednesday, March 21<sup>st</sup> (for the Lent term topics). Lists of topics for the termly essays will be circulated in the Michaelmas and Lent terms, respectively. Presenters must provide members of the class with copies of a one-page essay plan (outline) for their presentation (or copies of slides, where relevant). Class presentations should not take more than 15 minutes (or 10 minutes if there are more than two presenters). Since your presentation is your contribution to the common good, failure to show up to give your presentation is regarded as a serious offence.

The programme of classes will be circulated before classes start in week 4.

### **Essays**

The maximum length for an essay (or class presentation) is 1500 words. This is because it is good practice – for the exam and more generally – to write an essay that is concise, addresses all the relevant issues and excludes irrelevant material. Writing short essays will at first be difficult for many students. Persevere – it is worth the effort. Finally, when preparing a class presentation or writing an essay, be sure to focus directly on the question asked.