

# PhD Public Economics (EC534)

2011-12

**Teachers:** **Henrik Kleven**, R518 (tel 7852 3548; e-mail: [h.j.kleven@lse.ac.uk](mailto:h.j.kleven@lse.ac.uk))  
**Camille Landais**, S467 (tel 7955 7864; e-mail: [c.landais@lse.ac.uk](mailto:c.landais@lse.ac.uk))  
**Johannes Spinnewijn**, R515 (tel 7955 7022; e-mail: [j.spinnewijn@lse.ac.uk](mailto:j.spinnewijn@lse.ac.uk))

**Lectures:** Wednesdays 9:00-12:00, Lecture Room CLM.3.05

**Office hours:** **Kleven:** Wednesdays 15.30-16.30  
**Landais:** Tuesdays 16.00-17.00  
**Spinnewijn:** Tuesdays 16.00-17.00

**Website:** Lecture notes can be downloaded from the course website on Moodle.

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## Course organisation

**Content:** The course covers empirical and theoretical work on the economics of the public sector, including material on taxation, public expenditures and social insurance. The course aims to give students a broad overview of this growing field and to bring them to the research frontier.

**Lectures:** The course consists of one weekly three-hour lecture in the Michaelmas and Lent Terms. The lectures are divided into three modules taught by different lecturers in the following order: Spinnewijn (7 weeks), Landais (7 weeks) and Kleven (6 weeks).

**Written work:** One piece of work per part will be required and assessed by teachers.

**Assessment:** A three-hour written examination in the Summer Term.

**Reading list:** A list of readings for the course is set out below. Most, but not all, readings are available electronically in the Library's collection of electronic journals (<http://www2.lse.ac.uk/library/eresources/Home.aspx>) or by separate internet link.

## Seminars

Students participating in the course are expected to attend the STICERD-IFS Public Economics Seminar. This seminar series features about 12 speakers per year and is held on Wednesdays 12.30-13.40 at the Institute of Fiscal Studies, 7 Ridgmount Street. Further information is given at <http://www.ifs.org.uk/events/browse/type/pe>.

## General References

**Public Finance and Public Policy:**

Atkinson, A. and J. E. Stiglitz (1980). *Lectures on Public Economics*, McGraw-Hill, Singapore.

Auerbach, A. J. and M. Feldstein (eds.), *Handbook of Public Economics*, vol. 1 (1985), vol. 2 (1987), vol. 3 (2002), vol. 4 (2002), vol. 5 (forthcoming) Elsevier, Amsterdam.

Institute for Fiscal Studies (2010, 2011). *The Mirrlees Review: Reforming the Tax System for the 21<sup>st</sup> Century*, Volume 1 (Dimensions of Tax Design) and Volume 2 (Tax by Design), Oxford University Press, Oxford.

Kaplow, L. (2008). *The Theory of Taxation and Public Economics*, Princeton University Press, Princeton.

Laffont, J.-J. (1988) *Fundamentals of Public Economics*. MIT Press.

Myles, G. (1995). *Public Economics*, Cambridge University Press, Cambridge.

Salanié, B. (2003). *The Economics of Taxation*, MIT Press, Cambridge.

#### **Background References on Empirical Methods:**

Angrist, J. and A. Krueger (2001). “Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments.” *Journal of Economic Perspectives* 15, 69-87.

Angrist, J. and S. Pischke (2009). *Mostly Harmless Econometrics: An Empiricist’s Companion*, Princeton University Press, Princeton.

Bertrand, M., E. Duflo, and S. Mullainathan (2004). “How Much Should We Trust Differences-in-Differences Estimates?” *Quarterly Journal of Economics* 119, 249-275.

Duflo, E. (2002). “Empirical Methods.” MIT Mimeo.

Meyer, B. (1995). “Natural and Quasi-Experiments in Economics.” *Journal of Business and Economic Statistics* 13, 151-161.

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## **Lecture Topics and Readings**

Required readings are in bold. Other readings emphasized in class are marked by [\*]

### **Lectures 1-7: Johannes Spinnewijn**

#### **1. Social Insurance and Moral Hazard**

(a) Rationales for SI, (b) Moral hazard: theory and empirical implementation (c) Unemployment Insurance, (extra) Disability Insurance and Worker’s Compensation

Baily, M. (1978). “Some Aspects of Optimal Unemployment Insurance,” *Journal of Public Economics* 10, 379-402.

[\*] Card, D., Chetty, R. and A. Weber (2007). “Cash-on-Hand and Competing Models of Intertemporal Behavior: New Evidence from the Labor Market,” *Quarterly Journal of Economics* 122(4), 1511-1560.

[\*] Chetty R. (2008). "Moral Hazard vs. Liquidity and Optimal Unemployment Insurance," *Journal of Political Economy* 116(2), 173-234.

**Chetty R. (2009).** "Sufficient Statistics for Welfare Analysis: A Bridge Between Structural and Reduced-Form Methods," *Annual Review of Economics* 1, 451-488.

**Chetty, R. and Finkelstein, A. (2012).** "Social Insurance: Connecting Theory to Data," forthcoming in *Handbook of Public Economics*, Vol 5.

**Gruber, J. (1997).** "The Consumption Smoothing Benefits of Unemployment Insurance," *American Economic Review* 87, 192-205.

Feldstein, M. (1978). "The Effect of Unemployment Insurance on Temporary Layoff Unemployment," *American Economic Review* 65, 834-846.

Feldstein, M. and D. Altman (2007), "Unemployment Insurance Savings Accounts," *Tax Policy and the Economy* 21, 35-64.

[\*] Meyer, B. (1990) "Unemployment Insurance and Unemployment Spells," *Econometrica* 58, 757-782.

Meyer, B. (1995) "Lessons from the U.S. Unemployment Insurance Experiments," *Journal of Economic Literature* 33, 91-131.

[\*] Krueger, A. and B. Meyer (2004). "Labor Supply Effects of Social Insurance," in A. Auerbach and M. Feldstein (eds.), *Handbook of Public Economics* Vol. 4, Elsevier, Amsterdam. Also available as NBER Working Paper No. 9014.

Krueger, A. and A. Mueller (2010). "Job search and unemployment insurance: New evidence from time use data," *Journal of Public Economics* 94, 298-307.

Schmieder, J., Von Wachter, T. and S. Bender (2011). "The Effects of Extended Unemployment Insurance Over the Business Cycle: Regression Discontinuity Estimates over 20 years," *Quarterly Journal of Economics*, forthcoming.

[\*] Shavell, S. and L. Weiss (1979). "The Optimal Payment of Unemployment Insurance Benefits over Time," *Journal of Political Economy* 87, 1347-1362.

Shimer, R. and I. Werning (2007). "Reservation Wages and Unemployment Insurance," *Quarterly Journal of Economics* 122(3), 1145--1185.

Shimer, R. and I. Werning (2007). "Liquidity and Insurance for the Unemployed," *American Economic Review* 98(5), 1922-1942.

**Spinnewijn, J. (2009).** "Unemployed but Optimistic: Optimal Insurance Design with Biased Beliefs," <http://personal.lse.ac.uk/spinnewi/biasedbeliefs.pdf>.

On disability insurance:

Autor, D. and M. G. Duggan (2003). "The Rise In The Disability Rolls And The Decline In Unemployment," *Quarterly Journal of Economics* 118 (1), 157-205.

Bound, J. (1989). "The Health and Earnings of Rejected Disability Insurance Applicants," *American Economic Review* 79, 482-503.

Diamond, P. and E. Sheshinski (1995). "Economic Aspects of Optimal Disability Benefits," *Journal of Public Economics* 57, 1-24.

Parsons, D. (1991). "The Health and Earnings of Rejected Disability Insurance Applicants: Reply," *American Economic Review* 81, 1427-1434.

## 2. Health Insurance and Adverse Selection

(a) Rise in Health Spending, (b) Adverse Selection: Theory (c) Adverse Selection: Empirics  
(d) Impact of HI on Spending and Health

Arrow, K. (1963). "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review* 53.5, 941-973.

[\*] Card,D., Dobkin, C. and N. Maestas (2008). "The Impact of Nearly Universal Insurance Coverage on Health Care Utilization and Health: Evidence from Medicare," *American Economic Review* 98(5), 2242-2258.

**Chetty, R. and Finkelstein, A. (2012).** "Social Insurance: Connecting Theory to Data," forthcoming in *Handbook of Public Economics*, Vol 5.

Currie, J. and J. Gruber (1996a). "Saving Babies: The Efficacy and Cost of Recent Changes in the Medicaid Eligibility of Pregnant Women," *Journal of Political Economy* 104(6), 1263-1296.

**Currie, J. and J. Gruber (1996b).** "Health Insurance Eligibility, Utilitzation of Medical Care, and Child Health," *Quarterly Journal of Economics*, 111(2), 1263-1296.

Cutler, D. (2003). *Your Money or Your Life*. Oxford University Press, Oxford.

Cutler, D. (2004). "Health Care and the Public Sector", in A. Auerbach and M. Feldstein (eds.), *Handbook of Public Economics* Vol. 4, Elsevier, Amsterdam. Also available as NBER WP 8802.

Cutler, D. and J. Gruber (1996). "Does Public Insurance Crowd Out Private Insurance?" *Quarterly Journal of Economics* 111(2), 391-430.

**Einav, L., Finkelstein, A. and J. Levin (2010).** "Beyond Testing; Empirical Models of Insurance Markets," *Annual Review of Economics* 2, 311-336.

**Einav, L., Finkelstein, A. and M. Cullen. (2010).** "Estimating Welfare in Insurance Markets Using Variations in Prices," *Quarterly Journal of Economics*, 123(3): 877-921.

Einav, L., Finkelstein, A., and P. Schrimpf. (2010). "Optimal Mandates and the Welfare Cost of Asymmetric Information: Evidence from the U.K. Annuity Market," *Econometrica* 78(3), 1031-1092.

Finkelstein, A. (2007). "The Aggregate Effects of Health Insurance: Evidence from the Introduction of Medicare," *Quarterly Journal of Economics* 122(1), 1-37.

Gruber, J. (2007). Chapter 15 and 16. *Public Finance and Public Policy*. Worth Publishers, New York.

Hall, R. and C. Jones (2005). "The Value of Life and the Rise in Health Spending." *Quarterly Journal of Economics* 122(1), 39-72.

Handel, B. (2011). "Adverse Selection and Switching Costs in Health Insurance Markets: When Nudging Hurts," mimeo.

Hendren, N. (2011). "Private Information and Insurance Rejections," mimeo.

Murphy, K. and R. Topel (2006). "The Value of Health and Longevity." *Journal of Political Economy* 114(5), 871-904.

[\*] Manning, W. et al. (1987). "Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment", *American Economic Review* 77(3), 251-177.

[\*] Newhouse, J. (1992). "Medical Care Costs: How Much Welfare Loss?" *Journal of Economic Perspectives* 6(3), 3-21.

Pauly, W. (1986). "Taxation, Health Insurance, and Market Failure in Medical Care," *Journal of Economic Literature* 24(2), 629-675.

Rothschild, M. and J. Stiglitz (1976). "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," *Quarterly Journal of Economics* 90(4), 629-650.

[\*] Spinnewijn, J. (2011). "Heterogeneity, Demand for Insurance and Adverse Selection." Mimeo, [http://personal.lse.ac.uk/spinnewi/perceptions\\_welfare.pdf](http://personal.lse.ac.uk/spinnewi/perceptions_welfare.pdf)

### 3. Social Security

(a) SS Design and Reform, (b) SS and Labor, (c) Annuities, (d) SS and savings

**Banks, J., Blundell, R. and S. Tanner (1998).** "Is There a Retirement-Savings Puzzle?," *The American Economic Review* 88(4), 769-788.

**Barr, N. and P. Diamond (2006).** "The Economics of Pensions." *Oxford Review of Economic Policy* 22(1), 15-39.

Bernheim, D., Skinner, J. and S. Weinberg (2001) "Is There a Retirement-Savings Puzzle?" *The American Economic Review* 91(4), 832-857.

Brown, J., Kling, J., Mullainathan, S. and M. Wrobel (2008). "Why Don't People Insure Late Life Consumption? A Framing Explanation of the Under-Annuitization Puzzle." *American Economic Review*, 98(2): 304-309.

[\*] Carroll, G., Choi, J., Laibson, D., Madrian, B. and A. Metrick. "Optimal Defaults and Active Decisions." forthcoming *Quarterly Journal of Economics*.

[\*] Chetty, R., Friedman, J., Leth-Petersen, S., Nielsen, T. and T. Olsen (2012). "Active vs. Passive Decisions and Crowd-out in Retirement Savings Accounts: Evidence from Denmark", mimeo

Coile, C. and J. Gruber. "Social Security and Retirement," forthcoming *Review of Economics and Statistics*. (Also available as NBER Working Paper #7830 August 1 2000.)

[\*] Davidoff, T., Brown, J. and P. Diamond, "Annuities and Individual Welfare," *American Economic Review* 95(5), 1573-1590.

Diamond, P. (2004). "Social Security" Presidential Address to the AEA annual meetings, January 2004. *American Economic Review* 94(1), 1-24.

Diamond, P. and P. Orszag (2005). "Saving Social Security," *Journal of Economic Perspectives* 9(2), 11-32.

Einav, L., Finkelstein, A., and P. Schrimpf. "Optimal Mandates and the Welfare Cost of Asymmetric Information: Evidence from the U.K. Annuity Market," *Econometrica* 78(3), 1031-1092.

Gruber, J. (2007). *Chapter 13. Public Finance and Public Policy*. Worth Publishers, New York.

Guber, J. and D. Wise (1999), "Social Security Programs and Retirement Around the World: Introduction and Summary," in Jonathan Gruber and David Wise, eds., *Social Security and Retirement Around the World* (Chicago: University of Chicago Press), p. 1-36.

Feldstein, M. (1985). "The Optimal Level of Social Security Benefits," *Quarterly Journal of Economics* 100(2), 303-320.

Feldstein, M. (2005) "Rethinking Social Insurance" Presidential Address to the AEA annual meetings, January 2005, *American Economic Review* 95(1), 1-24.

[\*] Feldstein, M. and J. Liebman (2004). "Social Security," in A. Auerbach and M. Feldstein (eds.), *Handbook of Public Economics* Vol. 4, Elsevier, Amsterdam.

Finkelstein, A. and J. Poterba (2004). "Adverse Selection in Insurance Markets: Policyholder Evidence from the U.K. Annuity Market," *Journal of Political Economy* 112, 183-208.

Hurst, E. and M. Aguiar (2005). "Consumption vs. Expenditures," *Journal of Political Economy* 113(5), 919-948.

Madrian, B. and D. Shea (2001). "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior," *Quarterly Journal of Economics* 116(4), 1149-1187.

Stock, J. and D. Wise (1990). "Pensions, the Option Value of Work, and Retirement," *Econometrica* 58(5), 1151-1180.

#### 4. Externalities

(a) Externalities: government interventions, (b) Measuring externalities, (c) Behavioral internalities, (d) Public goods

[\*] Bernheim, D. and A. Rangel (2009). "Beyond Revealed Preference: Choice-Theoretic Foundations for Behavioral Welfare Economics," *Quarterly Journal of Economics* 124(1): 51-104.

Chay, K. and M. Greenstone (2005). "Does Air Quality Matter? Evidence from the Housing Market", *Journal of Political Economy* 113(2), 376-424.

Diamond, P. and J. Hausman (1994). "Contingent Valuation: Is Some Number Better than No Number?", *Journal of Economic Perspectives* 8, 45-64.

Edlin, A. and P. Karaca-Mandic (2006). "The Accident Externality from Driving," *Journal of Political Economy* 114(5), 2006.

Fullerton, D. and G. Metcalf (1997). "Environmental Taxes and the Double-Dividend Hypothesis: Did You Really Expect Something for Nothing?" NBER Working Paper 6199.

Glaeser, E. and E. Luttmer (2003). "The Misallocation of Housing Under Rent Control", *American Economic Review* 93(4), 1027-1046.

Goulder, L. (1995) "Environmental Taxation and the Double Dividend", *International Tax and Public Finance* 2(2), 157-183.

[\*] Gruber, J. and B. Koszegi (2001). "Is Addiction Rational? Theory and Evidence", *Quarterly Journal of Economics* 116(4), 1261-1305.

Salanie, B. (2003). Chapter 10. *The Economics of Taxation*, MIT Press, Cambridge.

Sandmo, A. (1975). "Optimal Taxation in the Presence of Externalities", *Swedish Journal of Economics* 77(1), 86-98.

Weitzman, M. (1974). "Prices vs. Quantities", *Review of Economic Studies* 41(4), 477-491.

## 5. Dynamic Taxation and New Public Finance (Lecture in Lent Term)

(a) Dynamic Mirrlees, (b) Capital Income, Wealth and Inheritance Taxes, (c) Disability Insurance, (d) Simple Tax Instruments

Atkinson, A.B. and J. Stiglitz (1976). "The design of tax structure: Direct versus indirect taxation," *Journal of Public Economics* 6, 55-75.

[\*] Banks J. and P. Diamond (2009). "The Base for Direct Taxation", in The Mirrlees Review: Reforming the Tax System for the 21st Century, Oxford University Press.

Chamley, C. (1986). "Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives," *Econometrica* 54, 607-622.

Diamond, P. and J. Mirrlees (1978). "A Model of Social Insurance with Variable Retirement," *Journal of Public Economics* 10, 295-336.

Diamond, P. and J. Spinnewijn (2011). "Capital Income Taxes with Heterogeneous Discount Rates," *American Economic Journal: Economic Policy* 3(4), 52-76.

Farhi, E. and I. Werning (2011). Insurance and Taxation over the Life-cycle. Mimeo.

Golosov, M., N. Kocherlakota and A. Tsyvinski (2003). "Optimal Indirect and Capital Taxation," *Review of Economic Studies* 70, 569-587.

[\*] Golosov, M. and A. Tsyvinski (2006). "Designing Optimal Disability Insurance: A Case for Asset Testing," *Journal of Political Economy* 114, 257-279.

[\*] Golosov, M., A. Tsyvinski and I. Werning (2006). "New Dynamic Public Finance: a User's Guide," NBER Macro Annual.

Judd, K. (1985). "Redistributive Taxation in a Simple Perfect Foresight Model," *Journal of Public Economics* 28, 59-83.

Kocherlakota, N. (2010). *New Dynamic Public Finance*, Princeton University Press: Princeton.

Laroque, G. (2005). "Indirect Taxation is Superfluous under Separability and Taste Homogeneity: A Simple Proof," *Economic Letters* 87, 141-144.

[\*] Piketty, T. (2011). "On the Long-Run Evolution of Inheritance: France 1820-2050", *Quarterly Journal of Economics* 126(3), 1071-1131.

Piketty, T. and E. Saez (2003). "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics* 118, 1-39.

Piketty, T. and E. Saez. (2011) "A Theory of Optimal Capital Taxation," preliminary mimeo.

Saez, E. (2002). "The Desirability of Commodity Taxation under Nonlinear Income Taxation and Heterogeneous Tastes," *Journal of Public Economics*, 83, 217-230.

Weinzierl, M. (2011). "The Surprising Power of Age-Dependent Taxes," *Review of Economic Studies*, forthcoming.

## Lectures 8-15: Camille Landais

### **1. Public Goods (2 lectures)**

(a) Samuelson Rule, Lindahl Pricing (b) Social Choice: Median Voter Theorem (c) Public Goods with Endogenous Private Provision (d) Public Goods with Distortionary Taxation (e) Empirical evidence on altruistic behaviors

Atkinson-Stiglitz, chapter 16-17

J.J. Laffont, chapter 2

J. Andreoni and A. A. Payne (2011). Crowding-Out charitable contributions in Canada: New knowledge from the north. NBER Working Paper 17635, National Bureau of Economic Research, Inc, 2011.

J. Andreoni, chapter forthcoming in vol.5 of *Handbook of public economics*  
<http://elsa.berkeley.edu/%7Eburch/andreoni-presentation.pdf>

[\*] J. Andreoni (1989). Giving with impure altruism: Applications to charity and ricardian equivalence. *Journal of Political Economy*, 97(6):1447-58.

D. Karlan, J. A. List, and E. Shafir (2011). Small matches and charitable giving: Evidence from a natural field experiment. *Journal of Public Economics*, 95(5):344-350, 2011.

S. DellaVigna, J. A. List, and U. Malmendier (2012). Testing for altruism and social pressure in charitable giving. *The Quarterly Journal of Economics*, 127(1):1-56.

A.B. Atkinson and N. H. Stern (1974). Pigou, taxation and public goods. *Review of Economic Studies*, 41(1):119-28.

E. Saez (2004). The optimal treatment of tax expenditures. *Journal of Public Economics*, 88(12):2657-2684.

P. Diamond (2006). Optimal tax treatment of private contributions for public goods with and without warm glow preferences. *Journal of Public Economics*, 90(4-5):897-919.

## 2. Tax incidence (2 lectures)

(a) Partial equilibrium analysis of incidence (b) Empirical applications (c) General equilibrium analysis and capitalization (d) Incidence of regulatory policies

[\*] L. J. Kotlikoff and L. H. Summers (1988). Tax incidence. *Handbook of public economics*, Elsevier.

Atkinson-Stiglitz, chapter 6-7

R. Chetty, A. Looney, and K. Kroft (2009). Salience and taxation: Theory and evidence. *American Economic Review*, 99(4):1145-1177.

D. Acemoglu and J. D. Angrist (2001). Consequences of employment protection? the case of the americans with disabilities act. *Journal of Political Economy*, 109(5):915-957.

A. J. Auerbach. Who bears the corporate tax? a review of what we know (2005). Working Paper 11686, National Bureau of Economic Research.

D. M. Cutler (1988). Tax reform and the stock market: An asset price approach. *American Economic Review*, 78(5):1107-17.

W. N. Evans, J. S. Ringel, and D. Stech (1999). Tobacco taxes and public policy to discourage smoking. *NBER chapters*, National Bureau of Economic Research, Inc,

A. C. Harberger (1962). The incidence of the corporation income tax. *Journal of Political Economy*, 70(3):215- 240

K. A. Hassett, A. Mathur, and G. E. Metcalf (2009). The incidence of a U.S. carbon tax: A lifetime and regional analysis. *The Energy Journal*, Volume 30(Number 2):155-178.

J. Hastings and E. Washington (2010). The first of the month effect: Consumer behavior and store responses. *American Economic Journal: Economic Policy*, 2(2):142-62, 2010.

L. Linden and J. E. Rockoff (2008). Estimates of the impact of crime risk on property values from Megan's laws. *American Economic Review*, 98(3):1103-1127.

J. Rothstein (2008). The unintended consequences of encouraging work: Tax incidence and the EITC. Working Paper 1049, Princeton University, Department of Economics, Center for Economic Policy Studies.

## 3. Efficiency cost of taxation (1 lecture)

(a) Recap on Marshallian surplus, EV and CV (b) Harberger formula (c) The pb of income effects (d) Sufficient statistics for deadweight loss analysis (e) Empirical applications

Mas-Collel, chapter 3

**A. J. Auerbach and J. J. Hines (2002).** Taxation and economic efficiency. *Handbook of public economics*, Elsevier, 2002.

[\*] **R. Chetty (2009).** Sufficient statistics for welfare analysis: A bridge between structural and Reduced-Form methods. *Annual Review of Economics*, 1(1):451-488.

**A. J. Auerbach (1985).** The theory of excess burden and optimal taxation. *Handbook of public economics*, Elsevier.

**C. L. Ballard, J. B. Shoven, and J. Whalley (1985).** The welfare cost of distortions in the united states tax system: A general equilibrium approach. NBER Working Paper 1043, National Bureau of Economic Research, Inc.

**J. S. Chipman and J. C. Moore (1980).** Compensating variation, consumer's surplus, and welfare. *The American Economic Review*, 70(5):933-949.

**L. H. Goulder and R. C. Williams (2003).** The substantial bias from ignoring general equilibrium effects in estimating excess burden, and a practical solution. *Journal of Political Economy*, 111(4):898-927.

**J. A. Hausman (1981).** Exact consumer's surplus and deadweight loss. *American Economic Review*, 71(4):662- 76.

**J. B. Shoven and J. Whalley (1972).** A general equilibrium calculation of the effects of differential taxation of income from capital in the U.S. *Journal of Public Economics*, 1(3-4):281-321.

**J. Marion and E. Muehlegger (1988).** Measuring illegal activity and the effects of regulatory innovation: Tax evasion and the dyeing of untaxed diesel. *Journal of Political Economy*, 116(4):633-666.

#### **4. Taxes, Transfers, and Labor Supply: Basic Theory and Empirical Applications (2 lectures)**

(a) Theoretical models of labor supply. (b) Early empirical work on labor supply. (c) Natural experiments and early difference-in-differences studies (d) Structural estimation methods (e) Intensive and extensive margins (f) Migration responses

**Blundell, R., A. Duncan, and C. Meghir (1998).** "Estimating Labor Supply Responses Using Tax Reforms." *Econometrica* 66, 827-862.

**Blundell, R. and T. MaCurdy (1999).** "Labor Supply: A Review of Alternative Approaches," in O. Ashenfelter and D. Card (eds.), *Handbook of Labor Economics* vol. 3A, Elsevier, Amsterdam.

**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.

**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.

Meghir, C. and D. Phillips (2010). "Labour Supply and Taxes," chapter 3 in Dimensions of Tax Design: the Mirrlees Review, Oxford University Press, Oxford.

[\*] Meyer, B. and D. Rosenbaum (2001). "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers." *Quarterly Journal of Economics* 66, 1063-1114.

[\*] Kleven, H. J., C. Landais, and E. Saez (2012). "Taxation and International Migration of Superstars: Evidence from the European Football Market." NBER Working Paper 16545.

T. E. MaCurdy (1981). An empirical model of labor supply in a Life-Cycle setting. *Journal of Political Economy*, 89(6):1059-85.

R. Blundell, A. Bozio, and G. Laroque (2011). Extensive and intensive margins of labour supply: working hours in the US, UK and France. *IFS Working Paper W11/01*.

## Lectures 1-6: Henrik Kleven

### 1. Taxation and Labor Supply: Recent Developments

(a) The identification revolution, the graphical revolution, and the use of large administrative datasets. (b) Recent quasi-experimental applications: sophisticated difference-in-differences approaches, bunching at kinks and notches, regression discontinuity design. (c) Short-run vs. long-run elasticities and optimization frictions.

[\*] Chetty, R. (2011). "Bounds on Elasticities with Optimization Frictions: A Synthesis of Micro and Macro Evidence on Labor Supply." NBER Working Paper 15616.

[http://obs.rc.fas.harvard.edu/chetty/bounds\\_opt.pdf](http://obs.rc.fas.harvard.edu/chetty/bounds_opt.pdf)

**Chetty, R., J. Friedman, T. Olsen, and L. Pistaferri (2011).** "Adjustment Costs, Firm Responses, and Micro vs. Macro Labor Supply Elasticities: Evidence from Danish Tax Records." *Quarterly Journal of Economics* 126, 749-804.

**Saez, E. (2010).** "Do Taxpayers Bunch at Kink Points?" *American Economic Journal: Economic Policy* 2, 180-212.

Saez, E., M. Matsaganis, and P. Tsakloglou (2011). "Earnings Determination and Taxes: Evidence from a Cohort Based Payroll Tax Reform in Greece" Forthcoming *Quarterly Journal of Economics*.

<http://elsa.berkeley.edu/~saez/saez-matsaganis-tsakloglouJune11grecetax.pdf>

### 3. Taxable Income Responses, Tax Avoidance and Tax Evasion

(a) The long-run evolution of top income shares and top marginal tax rates. (b) The elasticity of taxable income: concept, policy relevance, and empirical evidence. (c) Tax evasion and tax enforcement: theory and evidence.

Andreoni, J., B. Erard, and J. Feinstein (1998). "Tax Compliance." *Journal of Economic Literature* 36, 818-860.

[\*] Brewer, M., E. Saez, and A. Shephard (2010). "Means Testing and Tax Rates on Earnings," chapter 2 in *Dimensions of Tax Design: the Mirrlees Review*, Oxford University Press, Oxford. <http://www.ifs.org.uk/mirrleesreview/dimensions/ch2.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.

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