

This draft: January 22, 2014

**NEW YORK UNIVERSITY
ROBERT F. WAGNER GRADUATE SCHOOL OF PUBLIC SERVICE**

**PUBLIC ECONOMICS AND FINANCE
SPRING 2014**

Lectures:

PADM-GP 2140.001: Wednesday 11:00am-12:40pm 25 West 4th Street, Room C-20

PADM-GP 2140.002: Wednesday 6:45-8:25pm Bobst, Room LL138

Recitation:

PADM-GP 140: Wednesday 8:35-9:35pm Silver, Room 411

Professor Nirupama Rao

Office hours: Wednesday 1:30-2:30pm, Puck 3048

Please make an appointment via Google Appointments

Email: nirupama.rao@nyu.edu

Phone: 212.992.9861

Teaching Colleague: Amanda Warco

Office hours: Tuesdays, 5-6pm

Email: akw316@nyu.edu

Administrative assistant: Ann Lin

Email: ann.lin@nyu.edu

Phone: 212.998.7429

Fax: 212.995.3890

Office location: Puck 3rd floor, adjacent to the elevators.

Course Description

Public finance (also known as public economics) analyzes the impact of public policy on the allocation of resources and the distribution of income in the economy. In this course, you will learn how to use the tools of microeconomics and empirical analysis to answer these questions: When should the government intervene in the economy? How might the government intervene? And, what are the effects of those interventions on economic outcomes?

Prerequisites

P11.1011 Statistics

P11.1018 Microeconomics

P11.1021 Financial management (may be taken concurrently)

If you have not taken these prerequisites, you must contact the instructors before the semester begins. This course requires a working knowledge of the material learned in these prerequisite courses. You should review the textbooks and notes from these prerequisites **before** the course begins, and refer to them throughout the course as needed.

Website & Email

The course website is available on NYU Classes (<http://newclasses.nyu.edu>). I will periodically post announcements and documents (journal articles, lecture slides, homework solutions, etc.) there. In addition, I will occasionally send announcements through NYU Classes email system, so it is important that you regularly check your NYU email account or set up appropriate email forwarding (<http://home.nyu.edu/>). Please understand that it may take me up to 24 hours to reply to your email.

Also, all the lectures for this course were taped during Spring 2012 as part of NYU's Open Education initiative (<http://www.nyu.edu/academics/open-education/coursesnew/public-econ-finance.html>). While lectures are never identical, the material is very similar. They have proved a valuable resource for students in previous semesters.

Readings

The required textbook is:

Jonathan Gruber, *Public Finance and Public Policy*, 4th edition, Worth Publishers, 2013.

All other readings will be posted on NYU Classes or distributed in class.

If you choose to use another edition of the textbook, it is at your own risk. There will be a copy of the 4th edition on reserve at Bobst.

Course Requirements

Class Participation (10%): You must complete the reading assignments before class and come to class prepared to summarize and discuss them. In addition, you will take part in a discussion of a set of newspaper/magazine articles related to a course topic during one of three discussion sessions.

Nine Homework Assignments (10%): Each assignment is worth roughly 1% of your course grade. Homework assignments are an opportunity to review and apply the principles and tools developed in class. You will receive full credit for an assignment if it is 100% complete (even if the answers are not correct) and submitted on time at the *beginning* of class. Late assignments will not be accepted. Your assignment will be returned to your Wagner mailbox if you write your mailbox number at the top. Otherwise, you can pick up from Ann Lin.

Two Policy Memos (30%): Each policy memo is worth 15% of your grade. Memos may be completed individually or with a partner (both team members will receive the same grade). Late memos will not be accepted. Your memos will be returned to your Wagner mailbox. If you do not have a Wagner mailbox, you can pick up from Ann Lin.

Two Exams (50%): There is a midterm and a final, each worth 25% of your grade. The final focuses on material from the second half of the course. The final will be during the final exam period. There are no make-up exams. If you have a conflict with either of the scheduled exam dates, please do not take the course at this time.

Recitations

Each lecture class is followed by a recitation that focuses on applying course concepts to specific problems. The material from a lecture on Thursday will be covered the following Tuesday. A set of recitation problems will be posted on NYU Classes for each week. You should attempt these on your own before going to the recitation. Homework assignments will also be reviewed in recitation. While attendance is not mandatory, you will not do well in the examinations unless you master the material reviewed in these recitations.

Academic Integrity

As members of the NYU Wagner community, we are all expected to adhere to high standards of intellectual and academic integrity. Please review the academic code here: <http://wagner.nyu.edu/current/policies/index.php>.

For this particular course, there are some specific behaviors required to meet these standards of academic integrity, outlined below. Violations of these standards will automatically result in failure of the course and will be reported to the discipline committee for further action.

Homework Assignments: While we encourage students to work on the homework in groups, the final write-up of assignments must be done individually, with no sharing of written answers.

Policy Memos: If you choose to write memos as a team, both members of the team must contribute to the joint effort. There must be no free-riding.

Exams: The exams must be the sole work of the individual student.

Course Schedule:

Lecture – Wednesday	Recitation – Wednesday	Topic	DUE in Lecture
1: January 29 th	January 29 th	Intro to Public Finance	
2: February 5 th	February 5 th	Intro to Taxation	Assignment 1
3: February 12 th	February 12 th	Tax Incidence	Assignment 2
4: February 19 th	February 19 th	Tax Inefficiencies, Taxes on Labor Supply	Assignment 3
5: February 26 th	February 26 th	Taxes on Saving, Capital Gains and Transfers	Assignment 4
6: March 5 th	March 5 th	Corporate Taxation	Assignment 5
March 12 th	None	MIDTERM	Assignment 6
March 19 th	None	Spring Break (No Class)	
7: March 26 th	March 26 th	Tax Reform	
8: April 2 nd	April 2 nd	Government Budgets Discussion 1	
9: April 9 th	April 9 th	Market Failures and Social Insurance	Memo 1
10: April 16 th	April 16 th	Social Insurance Programs Discussion 2	Assignment 7
11: April 23 rd	April 23 rd	Health Insurance	Assignment 8
12: April 30 th	April 30 th	Income Distribution and Welfare Programs	Assignment 9 Memo 2
13: May 7 th	May 7 th	Local Public Finance Discussion 3	Assignment 10

Detailed Course Schedule:

The readings listed below should be completed before each class. Additional readings may be added to this list during the semester. Assignments and memos are due by the beginning of the class for which they are listed.

Class 1: Introduction to Public Finance

Gruber: (1) Why Study Public Finance?, (2) Theoretical Tools of Public Finance, (3) Empirical Tools of Public Finance, including appendix.

Class 2: Introduction to Taxation

Gruber: (18) Taxation in the United States and Around the World.

Gordon, Roger and Wei Li, "Tax structures in developing countries: Many puzzles and a possible explanation." *Journal of Public Economics* 93(7-8), 2009: 855–866. Skip sections 2-4.

Class 3: Tax Incidence

Gruber: (19) The Equity Implications of Taxation: Tax Incidence, including appendix, (23.4) Property Taxation.

Piketty, Thomas, and Emmanuel Saez, "How Progressive is the U.S. Federal Tax System? A Historical and International Perspective" *Journal of Economic Perspectives* 21(1) 2007.

Brown, Samuel, William G. Gale, Adam Looney, "On the Distributional Effects of Base-Broadening Income Tax Reform" Tax Policy Center Research Report, August 2012.

Class 4: Tax Inefficiencies and the Effect of Taxes on Labor Supply

Gruber: (20) Tax Inefficiencies and Their Implications for Optimal Taxation, excluding 20.4, but including formula for deadweight loss in the appendix, (21) Taxes on Labor Supply.

Class 5: The Effect of Taxes on Saving, Capital Gains and Transfers

Gruber: (22) Taxes on Savings, (23.2) Capital Gains Taxation, (23.3) Transfer Taxation.

Benartzi, Shlomo, and Richard Thaler. 2007. "Heuristics and Biases in Retirement Savings Behavior" *Journal of Economic Perspectives*, 21(3): 81–104.

Class 6 Corporate Taxation

Gruber: (24) Corporate Taxation.

Class 7
Midterm Exam

Class 8
Fundamental Tax Reform

Gruber: (25) Fundamental Tax Reform.

Graetz, Michael J., "Tax Reform Unraveling," *Journal of Economic Perspectives*, 21(1), 2007: 69-90.

Class 9
Government Budgets

Gruber: (4) Tools of Budget Analysis.

Ball, Laurence and N. Gregory Mankiw, "What do budget deficits do?" in *Budget Deficits and the Debt: Issues and Options*, Federal Reserve Bank of Kansas City, 1995, 95-119.

Class 10
Market Failures and Social Insurance

Policy Memo 1 due at the start of class.

Gruber: (5) Externalities, (7) Public Goods, (12) Social Insurance.

Class 11
Social Insurance Programs

Gruber: (20.4) Tax - benefit Linkages and the Financing of Social Insurance Programs, (13) Social Security, (14) Unemployment Insurance, Disability Insurance and Workers' Compensation, including appendix.

Cogan, John F. and Olivia S. Mitchell, "Perspectives from the President's Commission on Social Security Reform," *Journal of Economic Perspectives* 17(2), Spring 2003, 149-172.

Class 12
Health Insurance

Gruber: (15) Health Economics and Private Health Insurance, (16) Medicare, Medicaid, and Health Care Reform.

White, Chapin, "The Health Care Reform Legislation: An Overview" *The Economists' Voice* 7(5), December 2010.

Class 13
Income Distribution and Welfare Programs

Gruber: (17) Income Distribution and Welfare Programs

Gneezy, Uri, Stephan Meier and Pedro Rey-Biel, “When and Why Incentives (Don’t) Work to Modify Behavior” *Journal of Economic Perspectives* 25(4), Fall 2011, 191–210.

Class 14

Fiscal Federalism and Local Public Finance

Gruber: (10) State and Local Government Expenditures.

Feyrer, James and Bruce Sacerdote, “Did the Stimulus Stimulate? Real Time Estimates of the Effects of the American Recovery and Reinvestment Act” National Bureau of Economic Research working paper no. 16759, February 2011.

Class 15: Final Exam