Government intervention changes opportunities and incentives for firms, families, individuals, service providers, and state and local governments. This second course of the 2-course graduate public finance sequence considers the incentive effects of government taxation and expenditure programs. Primary emphasis will be in the examination of the effects of taxes, public assistance programs and social expenditure programs on individuals and families. The emphasis will be on learning techniques that can be applied to produce original research and to critically analyze existing research in the field of public economics. The course will emphasize empirical research and will contain a discussion of relevant econometric techniques used in public economics.

Class Meetings: Tuesday 10:00-12:00, 597 Evans.

Office Hours: Tuesday 1:00pm-2:30pm and by appointment (hwhoynes@ucdavis.edu)

Course Requirements:
- Paper Summaries (3) 15%
- Problem sets (2-3) 30%
- Referee report 20%
- Final Exam 35%

Paper Summaries:
Over the course of the term, each student has to complete 3 summaries of a paper discussed in class. These summaries are handed in at the beginning of class. The assignment should include a summary of the paper, its conclusions, and answers to the problems listed below. Keep the summaries to around one page.

Problem Sets
There will be 2-3 problem sets. We will use STATA and estimate models similar to those in papers we have discussed in class. You can work on problem sets together; however, I expect each of you to submit your own solutions. On this front, please present your answers in a clear, concise fashion. Typed answers are preferred. In your solution packet, include relevant Stata output (e.g., key regression output, key graphs, etc.) and well-annotated Stata .do files. (Do NOT include pages and pages of “undigested” Stata log files.) Place the .do files in an appendix and make clear reference to regression output and figures in your written answers.

Referee Report:
The referee report is a critique of an unpublished empirical paper. You are free to choose the paper you write on. The only papers that are off limits are those we discuss in class. You may, however, choose one on the reading list that we are not discussing in class. Other places to look for unpublished papers are the NBER and SSRN working paper web sites. This report should be no longer than 5 pages and typically is 2-3 single spaced pages. In general, the purpose of a referee report is to assist a journal editor in deciding whether to pursue publication of a paper, and if so, which revisions to request. Your report should therefore detail—in your own words—the paper’s contribution to the literature, key weakness(es), and thoughts.
on/recommendations for future improvement. Said differently, it should be a critical assessment of the paper, not simply a summary.

*Attend seminars when you can!* Attending seminars is one of the most human capital enhancing activities that we engage in.

*Lecture Notes*

**Course Outline**
I will require no more than 3, and typically only 1 or 2 articles per lecture. I expect you to carefully read these required papers and to be prepared to discuss them in class. The reading list also includes many more papers, some of which I will mention in the lecture.

Most of the readings can be obtained from JSTOR ([www.jstor.org](http://www.jstor.org)) or NBER ([www.nber.org](http://www.nber.org)) or directly through Berkeley online journal access.

**Questions to think about when reading empirical papers:**
- What question does it ask?
- What data is used? What are the key variables?
- What empirical model is used? What is the key parameter to be identified?
- What is the variation in the “treatment”? Do you believe this variation?
- What are the results and their interpretation? Is there an alternative interpretation?
- How does the paper contribute to the literature?

**Topics and Lectures**

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<tr>
<th>Week</th>
<th>Date</th>
<th>Topic</th>
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<tr>
<td>1</td>
<td>Jan 22</td>
<td>Introduction; Empirical methods in empirical micro.</td>
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<tr>
<td>2</td>
<td>Jan 29</td>
<td>Taxes and Labor Supply</td>
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<tr>
<td>3</td>
<td>Feb 5</td>
<td>Taxes, Labor Supply and the Low income population</td>
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<td>4</td>
<td>Feb 12</td>
<td>Taxes, Labor supply and the high income population</td>
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<td>5</td>
<td>Feb 19</td>
<td>No class.</td>
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<td>6</td>
<td>Feb 26</td>
<td>Welfare programs</td>
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<td>7</td>
<td>Mar 4</td>
<td>Welfare reform</td>
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<tr>
<td>8</td>
<td>Mar 11</td>
<td>Theory of social insurance</td>
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<td>9</td>
<td>Mar 18</td>
<td>Unemployment insurance</td>
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<td>Mar 25</td>
<td>Spring break. No class</td>
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<td>10</td>
<td>Apr 1</td>
<td>Worker's compensation</td>
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<td>11</td>
<td>Apr 8</td>
<td>Disability Insurance</td>
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<td>12</td>
<td>Apr 15</td>
<td>Social Security</td>
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<td>13</td>
<td>Apr 22</td>
<td>Medicare and Medicaid</td>
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<tr>
<td>14</td>
<td>Apr 29</td>
<td>Health and labor markets; Tax subsidies to saving; Information and retirement savings; consumption and savings</td>
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0. Empirical Approaches in Public Finance

Week 1
1/22/08


Cameron and Trivedi, Microeconometrics, 2005, Chapters 2, 25


1. Taxes and Labor Supply

Week 2
1/29/08


E. Saez (2002). “Do Taxpayers Bunch at Kink Points?” University of California working paper, June 13


NBER Working Paper No. 11230, March 2005


1.A. Taxes, Labor Supply and the Low Income Population

<table>
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<tr>
<th>Week 3</th>
<th>2/5/08</th>
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J. Hotz and K. Scholz, “The Earned Income Tax Credit”, in Means-Tested Transfer Programs in the United States,

<table>
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<th>Week 4</th>
<th>2/12/08</th>
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2. Welfare Programs

2.A Theory of Income Redistribution


2.B Incentive effects of cash welfare programs

|--------|------------------------------------------------------------------------------------------------------------------|


T. Nechyba. “Social Approval, Values and AFDC: A Re-Examination of the Illegitimacy Debate", *Journal of
Political Economy, 2001, 637-672.


2.C Welfare Reform


# 3. Social Insurance

## 3.A Theory of Social Insurance

<table>
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<tr>
<th>Week 8</th>
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## 3.B Unemployment Insurance

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<th>Week 9</th>
<th>3/18/08</th>
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</table>


Compensation," mimeo, Harvard University


J. B. Cullen and J. Gruber, “Spousal Labor Supply as Insurance: Does Unemployment Insurance Crowd Out the Added Worker Effect?,” JPUBE.


3.C Worker's Compensation

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<tr>
<th>Week 10</th>
<th>4/1/08</th>
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3.D Disability Insurance

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3.E Social Security and Labor Supply


J. Liebman, “Redistribution in the Current U.S. Social Security Program,” NBER WP 8635


### 3.F Social Security and Savings


### 4. Health Care


#### 4.B Public Health Care

|---------|---------------------------------------------------------------------------------------------------|


J. Currie and J. Gruber. “Health Insurance Eligibility, Utilization of Medical Care, and Child Health” QJE, 1996.


A. Finkelstein and R. McKnight, “What Did Medicare Do (And Was It Worth It)?” NBER Working Paper No. 11609
4.B Health Insurance and Labor Markets


5. Savings and Wealth

5.A Targeted Tax Subsidies to Saving


5.B Information and Retirement Savings

|---|


5.C Other topics in savings, consumption and wealth


