

Economics for Public Issues (Welfare Economics)

Peking University HSBC Business School

Spring 2014 / 3rd Module

EE&FE

Instructor: Dr. Daeyong Lee

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Office: 751 PHBS

Office hours: Tu/Fri 10:30~11:30am, or by appointment

TA: TBA

TA Office hours: Wed 2:00~3:00pm, or by appointment

Classroom: 231 PHBS

Class meeting: Tu/Fri at 8:30~10:20am

1. Course Overview

Economics for public issues deals with recent public issues in the US economy, in theory and practice. We will analyze the impact of factors behind current debated issues on economic outcomes. Also, we will evaluate welfare changes by government intervention related to those issues. This course primarily covers the following topics: (1) Intergenerational Redistribution of Wealth, (2) Tax Reforms, Fiscal Cliff, and Sequestration, (3) Economic Uncertainty, and (4) Financial & Mortgage Crisis. The class will also briefly present different government policies in different parts of the world, especially focusing on Chinese government policies. In this course, you will learn how to interpret economic analyses and how to use the tools of microeconomics and empirical analysis to investigate and predict the effects of government policies and regulations related to the recent public issues. Lastly, this course aims to help students to find their dissertation topics in economics or finance by covering the recent key papers.

• Prerequisites:

For this class, you are required to have passed “microeconomics” with at least a “C+”, and “mathematics for economists” with at least a “B-”. Students with background in Public Finance (offered in the first module) and Econometrics will find this class more accessible. Knowledge of statistical software such as STATA and SAS is strongly recommended.

2. Coursework and Grading

Presentation: 30%

Final Paper: 45%

Final Exam: 20%

Class participation: 5%

• **Presentation:**

Each student (or group if more than 15 students are taking the course) needs to choose one of the papers listed in the syllabus and make a presentation of it. Each student will have 1 hour and 30 minutes for the presentation. During the presentation, any discussants can interrupt and ask questions. The presentation will be evaluated based on how deeply students understand their topics, how effectively he/she delivers its contents to audiences, and how to handle questions. Students must send their PPT files to the instructor one day before the presentation date by an e-mail. Then, the instructor will circulate the files to students before the class.

• **Final Paper:**

Each student needs to choose one of the papers covered during the module and replicate the empirical results from it. When students choose their papers, they should let the instructor know it. Each student cannot choose the same paper for the replication. If the number of students is large, the instructor will arrange its choice by grouping the students. Each student must submit a final report containing replicated empirical result tables, brief comparison (or assessment) between original results and the replicated ones, and its programming codes by **10:20am, April 18 on Shenzhen time.**

• **Final Exam:**

There will be a final exam at the end of the module. It will include short essay type questions. The final exam will be held on **Monday, April 21, 8:30~10:30am. There will be no make-up exam, so students who miss the exam will be considered as getting zero points from it.**

• **Class Participation:**

Students will be graded for their “participation” in class, including presence and oral participation.

• **Class Policy:**

Students are **NOT** allowed to use their laptops or cellphones during the class.

3. Course Materials

- Recommended references:

Jonathan Gruber, *Public Finance and Public Policy*, 4th ed. Worth Publishers. *This book is currently available for consultation in the administration office.*

Scholes, Wolfson, Erickson, Maydew, and Shevlin, *Taxes & Business Strategy-A Planning Approach*, 5th ed. Prentice Hall.

- Other required and optional readings: A list of journal articles is provided below.

4. Class Schedule (tentative)

Part 1: Introduction to Economics for Public Issues

- Course Overview (**Lecture 1**)
- Introduction to recent public issues and background

Parts 2: Equality of Opportunity: How can we give children from disadvantaged backgrounds better chances of succeeding?

- Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States (Chetty et al., 2014a) (**Lecture 2**)
- Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility (Chetty et al., 2014b) (**Lecture 3**)

Parts 3: Tax Reforms: How do government tax reforms affect investors and firms' financial decisions?

Corporate Taxation

- Dividend Taxes and Corporate Behavior: Evidence from the 2003 Dividend Tax Cut (Chetty and Saez, 2005) (**Lecture 4**)
- The Effects of the 2003 Dividend Tax Cut on Corporate Behavior: Interpreting the Evidence (Chetty and Saez, 2006)
- Dividend and Corporate Taxation in an Agency Model of the Firm (Chetty and Saez, 2010) (**Lecture 5**)
- Dividend Taxes and Firm Valuation: New Evidence (Auerbach and Hassett, 2006)
- Dividend Taxation and Intertemporal Tax Arbitrage (Korinek and Stiglitz, 2009)

- Taxation and Corporate Payout Policy (Poterba, 2004)

Taxation of Individuals

- Do Dividend Clienteles Exist? Evidence on Dividend Preferences of Retail Investors (Graham and Kumar, 2006) **(Lecture 6)**
- The Dividend Clientele Hypothesis: Evidence from the 2003 Tax Act (Kawano, 2010) **(Lecture 7)**
- Dividends, Share Repurchases, and Tax Clienteles: Evidence from the 2003 Reductions in Shareholder Taxes (Blouin et al., 2011)
- Executive Financial Incentives and Payout Policy: Firm Responses to the 2003 Dividend Tax Cut (Brown et al., 2007)
- Taxes and Dividend Clientele: Evidence from Trading and Ownership Structure (Lee et al., 2006)
- Investor Response to a Reduction in the Dividend Tax Rate: Evidence from the Jobs and Growth Tax Relief Reconciliation Act of 2003 (Lightner et al., 2008)
- Tax Clientele Effects of Dividends under Intertemporal Consumption Choices (Mori, 2010)
- A Direct Examination of the Dividend Clientele Hypothesis (Scholz, 1992)
- Taxation and Household Portfolio Composition: US Evidence from the 1980s and 1990s (Poterba and Samwick, 2003) **(Lecture 8)**
- Taxes and Financial Portfolio Choices: Evidence from the Tax Rate Reductions of the 2001 and 2003 Tax Acts (Kawano, 2011) **(Lecture 9)**
- Asset Allocation and Asset Location: Household Evidence from the Survey of Consumer Finances (Bergstresser and Poterba, 2004) **(Lecture 10)**
- Optimal Asset Location and Allocation with Taxable and Tax-Deferred Investing (Dammon et al., 2004) **(Lecture 11)**
- Asset Location in Tax-Deferred and Conventional Savings Accounts (Shoven and Sialm, 2004)
- The Asset Location Puzzle: Taxes Matter (Zhou, 2009)
- The Budgetary and Welfare Effects of Tax-Deferred Retirement Saving Accounts (Nishiyama, 2011)
- Tax-Motivated Trading by Individual Investors (Ivković et al., 2005) **(Lecture 12)**
- The Tradeoff between Mortgage Prepayments and Tax-Deferred Retirement Savings (Amromin et al., 2007) **(Lecture 13)**

- Transitional Dynamics of Dividend and Capital Gains Tax Cuts (Gourio and Miao, 2011)
- Household Expenditure and the Income Tax Rebates of 2001 (Johnson et al., 2006)
- Consumer Response to Tax Rebates (Shapiro and Slemrod, 2003)

Part 4: Economic Uncertainty: How does government policy uncertainty affect financial markets?

- Fluctuations in Uncertainty (Bloom, 2013) (**Lecture 14**)
- Uncertainty about Government Policy and Stock Prices (Pástor and Veronesi, 2012) (**Lecture 15**)
- Political Uncertainty and Risk Premia (Pástor and Veronesi, 2013) (**Lecture 16**)

Part 5: Financial Crisis: How does the stock market crash affect household retirement decisions?

- Does Stock Market Performance Influence Retirement Intentions? (Goda et al., 2012) (**Lecture 17**)
- What the Stock Market Decline Means for the Financial Security and Retirement Choices of the Near-Retirement Population (Gustman et al., 2010) (**Lecture 18**)
- What Explains Changes in Retirement Plans during the Great Recession? (Goda et al., 2011)
- The Market Crash and Mass Layoffs: How the Current Economic Crisis May Affect Retirement (Coile and Levine, 2011)

References

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