

ECON516: ECONOMICS OF PUBLIC ISSUES

HSBC Business School, Peking University

3rd Module, Spring 2015

EE & FE



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Class meeting: M/Th 8:30-10:20am

1. COURSE OVERVIEW

Economics of Public Issues deals with recent public issues in the US economy, in theory and practice. This course primarily covers the following topics: (1) Taxation and Tax Reforms, (2) Health Care Reform, and (3) Welfare Programs. We analyze the impact of factors behind current debated issues on economic outcomes. Also, we evaluate welfare changes by government intervention related to those issues. The area of public economics includes two primary topics: government expenditures and taxation. This course covers both topics but puts more weight on tax policy (FYI: Public Finance course in Module 1 covers mainly government expenditure policy). The class also briefly presents various government policies in different parts of the world, especially focusing on Chinese government tax policies. In this course, students learn how to set up government policy issues in economics framework, and how to use theoretical and empirical tools of public economics to investigate/predict the effects of government policies and regulations on economic activities.

Prerequisite:

For this class, students are required to have passed “microeconomics” with at least a “B+”, and “mathematics for economists” with at least a “A”. Students with background in Public Finance (offered in the first module) and Econometrics find this class more accessible.

2. COURSEWORK AND GRADING

Quiz	10%	Midterm	30%
Final Exam	40%	Final Assignment	20%
Class Attendance	Final GPA will be adjusted by attendance. The following weights will be applied. No absence: Final GPA= 1.0 × (GPA based on four categories of coursework), One absence: 0.99 , Two absences: 0.98 , More than two absences: 0.7 .		

FYI: GPAs below 70 are considered as failure of the course by the PKU academic rule.

Quizzes:

Throughout the module, there will be quizzes randomly given during the class time. As such, make sure to keep up the course material by making preparations before each class meeting and reviewing after each class. **NO make-up quizzes will be allowed.**

Exams:

There will be a midterm (30%) and a final exam (40%). Both exams will include analytic (problem solving type) and short essay questions. The midterm will be in class on **Thursday, April 2, 2015**. The final exam will be held at **7:00–9:00pm on Tuesday, May 5, 2015**. **There will be NO make-up exams.** Please plan carefully your schedule for Spring module 2015 ahead.

Final Assignment:

Each student should choose one of the papers listed below and summarize it. After students decide the paper, they should inform the instructor of it. Each student should choose different papers from one another. If the number of students is large, the instructor will arrange its choice to minimize the overlap. Each student must submit a final assignment by **5:00pm, April 17, 2015 on SZT**. The format should be the Microsoft PowerPoint slides (no more than 40 slides), including technical and non-technical summary of the paper. The summary should identify the main research idea, results of the paper, explain their importance, and relate the work to the previous literature. Student must submit the report by an **e-mail**, titled **“ECON 516: Final Assignment (PAPER TITLE)” in the subject line. Late submissions will NOT be accepted.** Copying contents from other students are against the academic rule and will result in a “FAIL” of the course.

Among the submitted papers, students with the highest qualities will make a presentation at the end of the module, and they have 1 ½ hours for the presentation and Q&A. During the presentation, students can interrupt and ask questions at any time. Selected students for the presentation will receive the extra credits.

Class Policy:

Students are **NOT** allowed to use their laptops, cellphones, and other electronic devices during the class.

Communication:

CMS (Course Management System): All course communication will be conducted via “CMS”. All lecture notes, additional documents, assignments, schedules, and syllabi will be contained on the site. It is your responsibility to check “CMS” on a regular basis for course announcements and materials.

E-Mail: Outside of the office hours, email is the best way to reach me. When sending me an email, please include “**ECON516**” in the subject line. I will also send emails individually and to the class. Please check your email regularly. Most of the time I will answer your emails within 24 hours; however, do not wait until the last minute to ask for help.

I have an open door policy. If you have problems with any aspect of the course and/or want to discuss anything (e.g., course material, career opportunities in economics, etc.), please feel free to schedule time with me. Do not wait till the end of module to discuss any issues.

3. COURSE MATERIALS

Required Textbooks:

- *Public Finance and Public Policy*, Jonathan Gruber, 4th ed. Worth Publishers. (JG)
- *Handbook of Public Economics*, Vol. 3, 4, and 5, Alan J. Auerbach and Martin Feldstein (HP3, HP4, HP5)
- *Handbook of Health Economics*, Vol. 1A, Anthony J. Culyer and Joseph P. Newhouse (HH)

Other Optional Readings: A list of journal articles is provided below.

4. CLASS SCHEDULE (TENTATIVE)

Part 1: Introduction to Economics of Public Issues

Objective: Students first pay attention to recent public or government policy issues in US and China. They learn the basic theoretical and empirical tools of public economics, and also study two key fundamental theorems of Welfare Economics. This section helps students have interests in public economics, and serves as a stepping stone for better understanding of the advanced topics in the course.

- Course overview
- Introduction to recent public issues and background – JG Ch.1&2
- 1st and 2nd Fundamental Theorem of Welfare Economics

Part 2: Taxation in Theory and Practice

Objective: Students have an overview of global tax types and structures, and learn the key factors of optimal taxation. Also, they figure out how income taxation on labor or financial assets affects labor supply and saving in theory and practice. Lastly, they study the effects of recent tax reforms in US and China on economic activities.

- Introduction to Taxation: Taxation around the World (Types, Structure); Criteria for Evaluating Tax Systems: Fairness, Efficiency, Administrative Burden – JG Ch.18
- Tax Avoidance, Evasion, and Administration – HP3 Ch.22
- Tax Incidence: Which side of the market bears the burden of taxes? – JG Ch.19
- Tax Incidence – HP4 Ch.26
- Optimal Taxation: Taxation and Efficiency; Taxation of Consumption and Income in Theory and Practice – JG Ch.20
- Taxation and Economic Efficiency – HP3 Ch.21
- Optimal Labor Income Taxation – HP5 Ch.7
- Optimal Taxation with Commitment
- Issues with income taxation: Taxing Labor; How Labor Reacts to Taxes in Theory; Empirical Evidence; Labor Incentive Mechanisms – JG Ch.21
- Issue with Income Taxation: Taxing Savings; Theory, Evidence; Incentive mechanisms; Application to retirement savings, entrepreneurial activities, innovation – JG Ch.22

- Impact of Wealth Taxes on Risk-Taking Behavior – JG Ch.23
- Taxation and Saving – HP3 Ch.18
- Taxation, Risk-Taking, and Household Portfolio Behavior – HP3 Ch.17
- Fundamental Tax Reform – JG Ch.25

List of Readings

- Dividend Taxes and Corporate Behavior: Evidence from the 2003 Dividend Tax Cut (Chetty and Saez, 2005)
- 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)
- Do Dividend Clienteles Exist? Evidence on Dividend Preferences of Retail Investors (Graham and Kumar, 2006)
- The Dividend Clientele Hypothesis: Evidence from the 2003 Tax Act (Kawano, 2014)
- Dividends, Share Repurchases, and Tax Clienteles: Evidence from the 2003 Reductions in Shareholder Taxes (Blouin et al., 2011)
- 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)
- Asset Allocation and Asset Location: Household Evidence from the Survey of Consumer Finances (Bergstresser and Poterba, 2004)
- Optimal Asset Location and Allocation with Taxable and Tax-Deferred Investing (Dammon et al., 2004)
- The Budgetary and Welfare Effects of Tax-Deferred Retirement Saving Accounts (Nishiyama, 2011)
- Tax-Motivated Trading by Individual Investors (Ivković et al., 2005)
- The Tradeoff between Mortgage Prepayments and Tax-Deferred Retirement Savings (Amromin et al., 2007)
- Transitional Dynamics of Dividend and Capital Gains Tax Cuts (Gourio and Miao, 2011)
- Consumer Response to Tax Rebates (Shapiro and Slemrod, 2003)

Part 3: Social Insurance and Redistribution

Objective: Students understand the backgrounds of the recent health care reform, known as “Affordable Care Act of 2010” in US, and learn the basic functions of Social Insurance and its effects on health. Also, students study different empirical models often used in health economics.

- Health Insurance I: Health Economics and Private Health Insurance – JG Ch.15
- Health Insurance II: Medicare, Medicaid, and Health Care Reform– JG Ch.16
- Health Insurance and the Labor Market – HH Ch.7
- Labor Supply Effects of Social Insurance – HP4 Ch.33
- Health Care Reform, Affordable Care Act (ACA)
- Health Econometrics – HH Ch.6
- Income Distribution and Welfare Programs – JG Ch.17
- Welfare Programs and Labor Supply – HP4 Ch.34

List of Readings

- Effects of Federal Policy to Insure Young Adults: Evidence from the 2010 Affordable Care Act's Dependent-Coverage Mandate (Akosa Antwi et al., 2013)
- The Impacts of the Affordable Care Act: How Reasonable Are the Projections? (Gruber, 2011)
- Mandate-Based Health Reform and the Labor Market: Evidence from the Massachusetts

Reform (Kolstad and Kowalski, 2012a)

- The Impact of Health Care Reform on Hospital and Preventive Care: Evidence from Massachusetts (Kolstad and Kowalski, 2012b)
- Inside the Refrigerator: Immigration Enforcement and Chilling Effects in Medicaid Participation (Watson, 2014)
- The Impact of Medicaid on Labor Market Activity and Program Participation: Evidence from the Oregon Health Insurance Experiment (Baicker et al., 2014)
- Welfare Reform, Labor Supply, and Health Insurance in the Immigrant Population (Borjas, 2003)
- Welfare Reform and Health (Bitler et al., 2005)
- New Immigrants' Location Choices: Magnets without Welfare (Neeraj Kaushal, 2005)
- The Behavioral Effects of Welfare Time Limits (Grogger, 2002)
- Welfare Reform, Time Limits, and Infant Health (Leonard and Mas, 2008)

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