**UNIVERSITY OF CHICAGO**

**PUBLIC ECONOMICS**


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| Economics 363/Public Policy 440 | Professor Meyer |
| Winter 2015 | Office: 1155 E. 60th #166 |
| TTH 10:30-11:50 | Phone: 2-2712 |
| Office Hours M 1:30-3 | bdmeyer@uchicago.edu |


DESCRIPTION: This course which is primarily designed for Ph.D. students covers areas of active empirical research on the effects of taxes and government spending programs. The areas covered are welfare economics, quasi-experimental and structural estimation methods, income taxation and labor supply, the effects of welfare and social insurance programs including AFDC/TANF, social security, unemployment insurance, workers' compensation, and disability insurance. The emphasis in the course will be on empirical research. Those who are not Ph.D. students must have instructor's permission.

EVALUATION: Participation in class discussions, a 15 double-spaced page research proposal due Thursday, March 12 and an in class final exam on Tuesday, March 17. For master's students I will substitute a literature review for the research proposal.

READINGS: Selected readings. No required text.

1. Welfare Economics and Methodology

1.1 Social Welfare, Analysis of Tax Reforms

Deaton, Angus. 1997. "The Analysis of Household Surveys: A Microeconomic Approach to Development Policy. The Johns Hopkins University Press: Baltimore and London.

Hausman, Jerry A. and Whitney K. Newey (1995): "Nonparametric Estimation of Exact Consumers Surplus and Deadweight Loss," Econometrica 63, 1445-1476.

King, M. A. (1983): "Welfare Analysis of Tax Reforms Using Household Data," Journal of Public Economics, 183-214.

1.2 Estimation of Causal Effects; Quasi-Experiments

Angrist, Joshua D. and Alan B. Krueger (1999): "Empirical Strategies in Labor Economics," in Handbook of Labor Economics, Volume 3A, Orley C. Ashenfelter and David Card, eds., North-Holland: Amsterdam.

Bertrand, Marianne, Esther Duflo and Sendil Mullanaithan (2004): "How Much Should We Trust Differences-in-Differences Estimates?" Quarterly Journal of Economics 119 (February): 249-75.

Conley, Timothy and Christopher Taber (2011). "Inference with 'Difference in Differences' with a Small Number of Policy Changes." *Review of Economics and Statistics*. February, 2011.

Heckman, James (1996): "Comment," in Empirical Foundations of Household Taxation, ed. by Martin Feldstein and James M. Poterba, Chicago: University of Chicago Press.

Lee, David S. and Thomas Lemieux. 2010. "Regression Discontinuity Designs in Economics" Journal of Economic Literature 48 (June): 281-355.

*Meyer, Bruce D. (1995): "Natural and Quasi- Experiments in Economics," Journal of Business & Economic Statistics 13, 151-162.

Rosenzweig, Mark R. and Kenneth I. Wolpin, "'Natural' Natural Experiments in Economics," Journal of Economic Literature, December 2000.

Shadish, W., T. Cook, and D. Campbell, (2002): *Experimental & Quasi-Experimental Designs for Generalized Causal Inference*. Boston: Houghton Mifflin.

2. Income Taxation

2.1 Theory: Optimal Income Taxation

Immervall, Herwig, Henrik Kleven, Claus Kreiner and Emmanuel Saez (2007): "Welfare Reform in European Countries: A Micro-Simulation Analysis," *Economic Journal*, 117(1): 1-44.

Liebman, Jeffrey (2001): "The Optimal Design of the Earned Income Tax Credit," in Bruce D. Meyer and Douglas Holtz-Eakin, eds., Making Work Pay: The Earned Income Tax Credit and its Impact on America's Families. New York: Russell Sage Foundation Press, 196-233.

Saez, Emmanuel (2001): "Using Elasticities to Derive Optimal Income Tax Rates" Review of Economic Studies, 68, 205-229

Saez, Emmanuel (2002): AOptimal Income Transfer Programs: Intensive Versus Extensive Labor Supply Responses, Quarterly Journal of Economics, 117, 1039-1074.

Slemrod, Joel, Shlomo Yitzhaki, Joram Mayshar, and Michael Lundholm (1994): "The Optimal Two-Bracket Linear Income Tax," Journal of Public Economics, 53, 269-290.

Stern, N. H. (1976): "On The Specification of Models of Optimum Income Taxation," Journal of Public Economics, 6, 123-162.

2.2 Taxes and Labor Supply: Nonlinear Budget Sets and Critiques

Blomquist, Sören and Whitney Newey. (2000). "Nonparametric Estimation with Nonlinear Budget Sets." *Econometrica* 70: 2455-2480.

Blundell, Richard and Thomas MaCurdy. (1999). "Labor Supply: A Review of Alternative Approaches." in Handbook of Labor Economics, ed. by O. Ashenfelter and D. Card. New York: North-Holland.

*Chetty, Raj (2012). "Bounds on Elasticities with Optimization Frictions: A Synthesis of Micro and Macro Evidence on Labor Supply." Econometrica 80(3): 969-1018.

*Chetty, Raj, John N. Friedman, Tore Olsen and Luigi 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.

Chetty, Raj, Adam Guren, Day Manoli, and Andrea Weber (2011). "Are Micro and Macro Labor Supply Elasticities Consistent? A Review of Evidence on the Intensive and Extensive Margins." American Economic Review Papers and Proceedings 101: 471-75, 2011.

*Hausman, Jerry A. (1985): "Taxes and Labor Supply," in Handbook of Public Economics, ed. by Alan Auerbach and Martin Feldstein. Amsterdam: North-Holland.

Heckman, James J. (1983): "Comment," in Behavioral Simulation Methods in Tax Policy Analysis, ed. by Martin Feldstein, Chicago: University of Chicago Press.

Heim, Bradley T. and Bruce D. Meyer (2003): "Structural Labor Supply Models when Budget Constraints are Nonlinear," Working Paper, October 2000, Revised June 2003.

Heim, Bradley T. and Bruce D. Meyer (2004): "Work Costs and Nonconvex Preferences in the Estimation of Labor Supply Models," Journal of Public Economics 88, 2004, 2323-2338.

MaCurdy, Thomas, David Green, and Harry Paarsch (1990): "Assessing Empirical Approaches for Analyzing Taxes and Labor Supply," Journal of Human Resources, 25, 415-490.

MaCurdy, Thomas (1992): "Work Disincentive Effects of Taxes: A Reexamination of Some Evidence," American Economic Review, Papers and Proceedings, 82, 243-249.

Mroz, T. A. (1987): "The Sensitiviy of an Empirical Model of Married Women's Hours of Work to Economic and Statistical Assumptions," *Econometrica*, 55, 765-799.

van Soest, Arthur, Marcel Das, and Xiaodong Gong. (2002) "A Structural Labour Supply Model with Flexible Preferences." *Journal of Econometrics*. 107: 345-74.

## 2.3 Taxes and Labor Supply: The Natural Experiment Literature

Bianchi, Marco, Gudmundsson, Bjorn R. and Gylfi Zoega (2001): "Iceland's Natural Experiment in Supply-Side Economics," *American Economic Review* 91 (December): 1564-79.

Blundell, Richard, Alan Duncan and Costas Meghir (1998): "Estimating Labour Supply Responses Using Tax Reforms," Econometrica 66(4), July 1998, pages 827-61.

*Cesarini, David, Erik Lindqvist, Matthew J. Notowidigdo, and Robert Ostling. 2014. "The Effect of Wealth on Individual and Household Labor Supply: Evidence from Swedish Lotteries." Working Paper, Northwestern University.

Chetty, Raj. 2009. "Is the Taxable Income Elasticity Sufficient to Calculate Deadweight Loss? The Implications of Evasion and Avoidance." *American Economic Journal: Economic Policy* 1(2): 31-52.

Eissa, Nada (1995): "Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 As a Natural Experiment," NBER Working Paper No. 5023, February 1995.

*Feldstein, Martin (1995): "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act," Journal of Political Economy 103, 551-72.

Feldstein, Martin. 1999. "Tax Avoidance and the Deadweight Loss of the Income Tax," Review of Economics and Statistics 81(4): 674-680.

*Goolsbee, Austan (2000): "What Happens When You Tax the Rich? Evidence From Executive Compensation," Journal of Political Economy 108(2), April 2000, pages 352-78.

Gruber, Jonathan and Emmanuel Saez (2002): "The Elasticity of Taxable Income: Evidence and Implications" Journal of Public Economics 84, 1-32.

*Liebman, Jeffrey and Emmanuel Saez (2006): "Earnings Responses to Increases in Payroll Taxes," Working Paper, University of California, Berkeley.

Moffitt, Robert (1999): "Taxation and the Labor Supply Decisions of the Affluent," in Does Atlas Shrug?: The Economic Consequences of Taxing the Rich, Joel B. Slemrod, editor. New York: Russell Sage Foundation; Cambridge, MA: Harvard University Press.

Saez, Emmanuel, Joel Slemrod and Seth Giertz (2012): "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review" Journal of Economic Literature 50, 3-50.

Slemrod, Joel (1996): "High-Income Families and the Tax Changes of the 1980s: The Anatomy of Behavioral Response," in Empirical Foundations of Household Taxation, ed. by Martin Feldstein and James M. Poterba, Chicago: University of Chicago Press.

2.4 The Earned Income Tax Credit

Blundell, Richard, Alan Duncan, Julian McCrae and Costas Meghir (2000): "The Labour Market Impact of the Working Families' Tax Credit." Fiscal Studies, March 2000, vol. 21, no. 1, 75-104.

Blundell, Richard and Andrew Shephard. 2012. "Hours of Work and the Optimal Taxation of Low Income Families." *Review of Economic Studies*. 79(2): 481-510.

Chetty, Raj and Emmanuel Saez, 2011. "Teaching the Tax Code: Earnings Responses to an Experiment with EITC Recipients," American Economic Journal: Applied Economics, 5(1): 1-31.

Chetty, Raj, John Friedman and Emmanuel Saez. 2013. "Using Differences in Knowledge Across Neighborhoods to Uncover the Impacts of the EITC on Earnings." American Economic Review, 103(7): 2683-2721, 2013

Dahl, Gordon and Lance Lochner. 2012. "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit." *American Economic Review*. 102(5): 1927-1956.

Dickert, Stacy, Scott Houser, and John Karl Scholz (1995): "The Earned Income Tax Credit and Transfer Programs: A Study of Labor Market and Program Participation," in Tax Policy and the Economy 9, edited by James M. Poterba. Cambridge, MA: MIT Press.

Eissa, Nada and Jeffrey B. Liebman (1995): "Labor Supply Response to the Earned Income Tax Credit," Quarterly Journal of Economics, May 1996, 112(2), 605-637.

Eissa, Nada and Hilary Hoynes (2004): "Taxes and the Labor Market Participation of Married Couples: The Earned Income Tax Credit," Journal of Public Economics 88: 1931-1958.

Eissa, Nada and Hilary Hoynes (2000): "Tax and Transfer Policy, and Family Formation: Marriage and Cohabitation" Working Paper, University of California at Davis. http://www.econ.ucdavis.edu/faculty/hoynes/working_papers.html

Ellwood, David (2000): "The Impact of the Earned Income Tax Credit And Other Social Policy Changes On Work and Marriage in the United States," National Tax Journal 53, 1063-1106.

Hotz, V. Joseph, Charles H. Mullin and John Karl Scholz (2002): "Welfare, Employment, and Income: Evidence on the Effects of Benefit Reductions from California" *American Economic Review* 92 (May): 380-84.

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Kopczuk, Wojciech and Cristian Pop-Eleches (2006): "Electronic Filing, Tax Preparers and Participation in the Earned Income Tax Credit," *Journal of Public Economics* 91 (7-8): 1351-1367.

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Meyer, Bruce D. (2002) "Labor Supply at the Extensive and Intensive Margins: The EITC, Welfare and Hours Worked" American Economic Review, Papers and Proceedings, 92, 373-379.

*Meyer, Bruce D. and Dan T. Rosenbaum (2001): "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers," Quarterly Journal of Economics CXVI, 1063-1114.

Meyer, Bruce D. and Dan T. Rosenbaum (2000): "Making Single Mothers Work: Recent Tax and Welfare Policy and its Effects," National Tax Journal 53, 1027-1062.

Romich, Jennifer L. and Thomas Weisner (2000): "How Families View and Use the EITC: Advance Payment versus Lump Sum Delivery," National Tax Journal 53, 1245-1264.

Scholz, John Karl (1994): "The Earned Income Tax Credit: Participation, Compliance, and Anti-Poverty Effectiveness," National Tax Journal, 59-81.

## 3. Welfare Programs

### 3.1 Background and Surveys

Danziger, Sheldon, Robert Haveman, and Robert Plotnick (1981): "How Income Transfer Programs Affect Work, Savings, and the Income Distribution: A Critical Review," Journal of Economic Literature, XIX, 975-1028.

Hoynes, Hilary Williamson (1997): "Work and Marriage Incentives in Welfare Programs: What Have We Learned?," in Fiscal Policy: Lessons from Economic Research, ed. by Alan J. Auerbach. Cambridge: MIT Press.

Moffitt, Robert (1992): "Incentive Effects of the U.S. Welfare System: A Review," Journal of Economic Literature, XXX, (March), 1-61.

Moffitt, Robert (2002): "Welfare Programs and Labor Supply" NBER Working Paper No. 9168. Also Chapter 34 in Handbook of Public Economics, 2002, vol. 4, pp 2393-2430, Elsevier

Moffitt, Robert (2003) "The Temporary Assistance for Needy Families Program," in Means-Tested Transfer Programs in the United States, edited by Robert A. Moffitt, University of Chicago Press.

U.S. House of Representatives, Committee on Ways and Means (2004): 2004 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means. Washington: U.S. Government Printing Office.

### 3.2 Theoretical Effects of Cash Welfare

Akerlof, George A. (1978): "The Economics of Tagging as Applied to the Optimal Income Tax," American Economic Review, 68 (March), 8-19.

Atkinson, A. B. (1987): "Income Maintenance and Social Insurance," in Handbook of Public Economics, ed. by Alan Auerbach and Martin Feldstein. Amsterdam: North-Holland.

Besley, Timothy and Stephen Coate (1995): "The Design of Income Maintenance Programmes," Review of Economic Studies 62, 187-221.

Brown, Charles C., and Wallace E. Oates (1987): "Assistance to the Poor in a Federal System," Journal of Public Economics, 32, 307-330.

Nichols, Albert L. and Richard J. Zeckhauser (1982): "Targeting Transfers Through Restrictions on Recipients," American Economic Review 72 (May), 372-377.

Orr, Larry L. (1976): “Income Transfers as a Public Good: An Application to AFDC,” American Economic Review 66 (June), 359-371.

Varian, Hal (1980): "Redistributive Taxation as Social Insurance," Journal of Public Economics, 14, 49-68.

3.3 Poverty and Inequality in the U.S.: Measurement and Trends

*Aguiar, Mark, and Erik Hurst. 2007. “Measuring Trends in Leisure: The Allocation of Time Over Five Decades” Quarterly Journal of Economics 122(3): 969-1006.

*Atkinson, Anthony B., Thomas Piketty, and Emmanuel Saez. 2011. “Top Incomes in the Long Run of History” Journal of Economic Literature XLIX (1): 3-71.

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Cutler, David and Lawrence Katz (1991): "Macroeconomic Performance and the Disadvantaged," Brookings Papers on Economic Activity, 1-74.

Danziger, Sheldon H. and D. H.Weinberg (1994): “The Historical Record: Trends in Family Income, Inequality, and Poverty,” in Confronting Poverty: Prescriptions for Change, ed. by Sheldon H. Danziger, Gary D. Sandefur. And Daniel H. Weinberg. Cambridge, MA: Harvard Press.

Haveman, Robert and Andrew Bershadker (1998): "Self-Reliance as Poverty Criterion: Trends in Earnings Capacity Poverty, 1975-1992," American Economic Review 88 (May), 342-347.

Meyer, Bruce D. and James X. Sullivan (2003): “Measuring the Well-Being of the Poor Using Income and Consumption,” Journal of Human Resources 38 Supplement, 2003, 1180-1220.

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*Meyer, Bruce D. and James X. Sullivan (2012): “Winning the War: Poverty from the Great Society to the Great Recession,” *Brookings Papers on Economic Activity*, Fall 2012, 133-200.

*Meyer, Bruce D. and James X. Sullivan (2012): "Identifying the Disadvantaged: Official Poverty, Consumption Poverty, and the New Supplemental Poverty Measure," *Journal of Economic Perspectives*, 26: 111-136.

National Research Council (1995): Measuring Poverty: A New Approach, Constance F. Citro and Robert T. Michael, eds., Washington, DC: National Academy Press.

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

Slesnick, Daniel T. (1993): "Gaining Ground: Poverty in the Postwar United States," Journal of Political Economy 101 (February), 1-38.

Triest, Robert (1998): "Has poverty gotten worse?" Journal of Economic Perspectives 12(1), 97-114.

3.4. Behavioral Effects of Cash Welfare: Labor Supply

Blank, Rebecca M. (1985): "The Impact of State Economic Differentials on Household Welfare and Labor Force Participation," Journal of Public Economics 28, 25-58.

Bane, Mary Jo and David T. Ellwood (1983): "The Dynamics of Dependence: The Routes to Self-Sufficiency," report prepared for U.S. Department of Health and Human Services.

Bitler, Marianne, Jonah Gelbach and Hilary Hoynes (2006): "What Mean Impacts Miss: Distributional Effects of Welfare Reform Experiments," American Economic Review, 96(4), 988-1012.

Blank, Rebecca M., David Card and Philip K. Robins (2000): "Financial Incentives for Increasing Work and Income Among Low-Income Families," in Finding Jobs: Work and Welfare Reform, edited by David Card and Rebecca M. Blank. New York: Russell Sage Foundation.

Fitzgerald, John (1991): "Welfare Durations and the Marriage Market: Evidence from the Survey of Income and Program Participation," Journal of Human Resources, 26, 545-561.

Hoynes, Hilary and Thomas MaCurdy (1993): "Has the Decline in Benefits Shortened Welfare Spells?" American Economic Review 84 (May 1994), p. 43-48.

Hoynes, Hilary: (1996): "Welfare Transfers in Two Parent Families: The Case of AFDC-UP," Econometrica, 64, 295-332.

*Keane, Michael and Robert Moffitt (1998): "A Structural Model of Multiple Welfare Program Participation and Labor Supply," International Economic Review 39 (August), 553-589.

Michalopolous, Charles, Philip K. Robins and David Card (2005): "When Financial Work Incentives Pay for Themselves: Evidence from a Randomized Social Experiment for Welfare Recipients," *Journal of Public Economics* 89 (1): 5-30.

Moffitt, Robert (1983): "An Economic Model of Welfare Stigma," American Economic Review, 73, 1023-1035.

Moffitt, Robert (1986): "Work Incentives in Transfer Programs (Revisited): A Study of the AFDC Program," in R. Ehrenberg, Research in Labor Economics, 8, 389-439.

3.5. Behavioral Effects of Cash Welfare: Marriage and Fertility

*Bitler, Marianne, Jonah Gelbach and Hilary W. Hoynes (2006): "The Impact of Welfare Reform on Living Arrangements," *Journal of Human Resources* 41(1): 1-27.

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Ellwood, David, and Mary Jo Bane (1985): "The Impact of AFDC on Family Structure and Living Arrangements," Research in Labor Economics, 7, 137-207.

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*Grogger, Jeffrey and Stephen G. Bronars (2001): "The Effect of Welfare Payments on the Marriage and Fertility Behavior of Unwed Mothers: Results from a Twins Experiment," *Journal of Political Economy* 109 (June): 529-45.

Hoffman, S., and G. Duncan (1988): "A Comparison of Choice-Based Multinomial and Nested Logit Models: The Family Structure and Welfare Use Decisions of Divorced or Separated Women," Journal of Human Resources, 23, 550-562.

*Hoynes, Hilary Williamson (1997): "Does Welfare Play any Role in Female Headship Decisions?" Journal of Public Economics, 65, 89-118.

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3.6. Behavioral Effects of Cash Welfare: Migration

Blank, Rebecca M. (1988): "The Effect of Welfare and Wage Levels on the Location Decisions of Female-Headed Households," Journal of Urban Economics, 24, 186-211.

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*Meyer, Bruce D. (2000): "Do the Poor Move to Receive Higher Welfare Benefits?" Working Paper, Northwestern University, July 1998 (revised September 2000).

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Walker, James (1995): "Low Income Migration During a Decade of Impoverishment," Working Paper, University of Wisconsin.

3.7 Cash Welfare, Takeup and Other Effects

Blank, Rebecca M. and Patricia Ruggles (1996): "When Do Women Use AFDC & Food Stamps? The Dynamics of Eligibility vs. Participation," Journal of Human Resources 31, 57-89.

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3.8 Medicaid, Medicare and Health Care for the Poor

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Corman, Hope, and Michael Grossman (1985): "Determinants of Neonatal Mortality Rates in the U.S.," Journal of Health Economics, 4, 213-236.

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## 4. Workers' Compensation: Labor Supply, Injury Prevention, Incidence, Inequality

### 4.1 Characteristics of Programs and Surveys

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### 4.2 Theoretical Work on Workers' Compensation

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