

ECON3003: Advanced Public Economics

Fall Term 2022/23

Module Outline

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Lectures: Wednesdays 12pm-1pm in SCGB A40 and Fridays 3pm-5pm in SCGB A41

Module Summary

This 20-credit module studies what role the government plays and should play in the economy, especially those policies that work through taxes and government spending. The goal is to provide an understanding of the reasons for government intervention in the economy, analysing the benefits of possible government policies, and the response of economic agents to the government's actions. The course covers topics such as tax and welfare policy, income taxation, social security programs, tax enforcement, tax incidence, and public goods. The course combines theory along with empirical research on current policy issues such as inequality and poverty, tax reforms, and cash transfer programs using various econometric methods. The module includes a short refresher lecture on the theoretical and empirical tools used in Public Economics to bring students with different backgrounds up to speed.

Assessment

The assessment in this module is 100% exam based. It takes the form of a 3-hour online exam at the end of the Fall semester. The exam will consist of two sections. A compulsory Section A, counting for 60%, will contain a long question with equally-weighted subparts. Section B, counting for 40%, will contain two questions, but you must choose one. This is a *brand-new module* and, thus, there are no past exams to practice. The questions included in the tutorials will try to fill this gap. In addition, please bear in mind that I will give you hints during class on the type of questions that I might ask in the final exam.

Readings

The textbook for this module is:

Jonathan Gruber, Public Finance and Public Policy, 6th edition, Macmillan, 2019.

Optional textbook (the lectures follow loosely the Gruber book). Earlier editions of the textbook are totally fine.

In addition, the module makes intensive use of journal articles and official reports. The full reading list discussed in lecture slides can be found at the back of each slide set with web links to the pdf files.

Teaching delivery

Lectures: The *lecture material* will be delivered on a weekly basis in teaching weeks 3 through 13. The material consists mainly of lecture slides that will be posted on the Moodle website (occasionally there will be a survey or a quiz in class). These slides are not comprehensive and not self-explanatory. Note also that lectures do not always cover 100% of the material from the slides. Therefore, attending lectures is critical for learning and succeeding in class. The material will start to appear on Mondays at 1pm (all times are local, i.e., GMT or BST).

Note that w/c 7 of November (week 8) is a **reading week** and w/c 12 of December (week 13) is a **review week** with the purpose of reviewing the lecture material in preparation for the assessment. You will also have the opportunity to ask questions ahead of the final exam.

Tutorials: There are three *tutorials* for this module: (1) week 8 (w/c 7 Nov); (2) week 10 (w/c 21 Nov); (3) week 12 (w/c 5 Dec). Tutorial (1) will be asynchronous, and I will provide an answer key and a recording.

Lecture schedule

1. Introduction to public economics and review of tools – 3 Lectures
Gruber, Chapters 1, 2, 3
2. Taxation and Redistribution: Inequality, Poverty, Taxes and Transfers – 1 Lecture
Gruber, Chapter 17 [lectures do not follow Gruber textbook closely]
3. Overview of the UK income tax-benefit system – 1 Lecture
Readings: Pope and Waters (2016); Hood and Norris Keiller (2016); Brewer and Hoynes (2019)
4. Optimal labour income taxation and Optimal design of transfers – 2 Lectures
Core optimal income tax model: linear and nonlinear taxes. Optimal top income tax rate. Optimal design of transfers. Participation responses (extensive margin).
Readings: Gruber, Chapters 20, 21 [lectures do not follow Gruber textbook closely]; Piketty and Saez (2013) handbook chapter; Diamond and Saez (2011).
5. Behavioural responses to income taxation I – 2 Lectures
Labour supply responses to taxes and transfers: Key methodologies (non-linear budget sets, “bunching at kinks”). Extensive and intensive margin responses.
Readings: Saez (2010); Kleven (2019); other papers listed on the slides.
6. Behavioural responses to income taxation II – 2 Lectures
Responses of reported taxable income: Broader effects of taxation (beyond labour supply). Key methodologies (diff-in-diff and time series methods). Tax avoidance (income shifting and intertemporal substitution). Extensions: Migration and rent-seeking.
Readings: Saez et al (2012); Piketty et al (2014); other papers listed on the slides.
7. Tax enforcement – 2 Lectures
The canonical Allingham and Sandmo (1972) model. Tax gap in the UK. Empirical evidence from classic and recent papers.
Readings: Kleven et al (2011), Pomeranz (2015), Advani et al (2022)
8. Role of the government: Public Goods and Education – 2 Lectures
Basic theory of public goods. Public provision of private goods: Education.
Gruber, Chapters 7, 11
9. Tax incidence and the efficiency cost of taxation – 2 Lectures
Basic theory using the supply and demand competitive model. Empirical evidence from recent papers (VAT, soda tax, corporate tax, means-tested transfers).
Readings: Gruber, Chapter 19. Allcott et al (2019), Benzarti, Garriga, and Tortarolo (2022)
10. Doing tax research using big data – 1 Lecture
Master class with tips and lessons about how to do research in public economics using large administrative databases from government agencies.
11. Review of topics and preparation for the assessment – 1 Lecture