

14.472 - Public Finance II
Peter Diamond/Jon Gruber
Spring 2004

Meetings:

The course will meet Mondays and Wednesdays from 1-2:30 in E51-361. There will be additional meetings to discuss problem sets at times to be arranged. The teaching assistant for the course is Norma Coe: nbcoe@mit.edu, E51-090.

Requirements:

There will be three problem sets, a mid-term take-home exercise, and an in-class final exam. The problem sets will count for 10% of the grade, the mid-term exercise will count for 30% of the grade, and the final will count for the other 60%.

For Gruber's sections of the course (Sections 3.3, 3.4, and 4.2 onwards), all readings are required (for the longer review papers or evaluation reports, only a light read is necessary). For Diamond's sections of the course, bold readings are required. All of Gruber's readings and Diamond's required readings will be available in a course packet. Required readings guide: *-in packet, ^J-[jstor.org](http://www.jstor.org), ^{MIT}- [MIT electronic journals](#), ^{NBER}-[NBER working papers](#), ^O=available online.

14.472 Home Page:

There is a 14.472 home page (<http://web.mit.edu/14.472/www>) on the World Wide Web. Copies of the reading list, problem sets, and some handouts and problem set answer sheets will be available on the home page.

Office Hours:

Gruber is available on Mondays and Wednesdays before class, from 10:30AM to 12 noon, in E52-355. Diamond is available Mondays to Thursday 2:30-3:30 in E52-344 until spring break. To make appointments at other times, just send email to pdiamond@mit.edu or gruberj@mit.edu.

Public Finance Field Requirements:

The Public Finance field requirement consists of two courses: 14.471 (Public Finance I) and 14.472 (Public Finance II). In some cases, 14.474 (Advanced Topics in Public Economics) may be combined with 14.471 to satisfy the field requirement.

Public Finance Seminar and Luncheon Meeting:

The Public Finance Seminar plays an important part in raising current "hot topics" and permitting students to meet some of the outstanding scholars in the field. Seminars take place Monday afternoons from 4:00-5:30. The seminar alternates between Harvard and MIT and when at MIT meets in E51-145. Schedules, seminar notices, and papers are usually available in E52-352. The seminar is not restricted to thesis writers, and first and second year students are encouraged to attend. We also have an informal Monday luncheon in E52-244 398 (noon) where thesis writers present their work in progress; students planning to specialize in public finance are welcome to attend.

14.472 - Public Economics II

P. Diamond/J. Gruber

Spring 2004

Useful texts

- A. Auerbach and M. Feldstein, Handbook of Public Economics: Volumes 1 & 2 & 3 (Amsterdam: North Holland, 1985, 1987, 2003).
- A. Atkinson and J. Stiglitz, Lectures in Public Economics (New York: McGraw Hill, 1980).
- J. Laffont, Fundamentals of Public Economics (Cambridge: MIT Press, 1988).
- R.A.Moffit (Ed) Means-Tested Transfer Programs in the United States. National Bureau of Economic Research Conference Report. University of Chicago Press. Chicago and London. 2003.
- G. Myles, Public Economics (New York: Cambridge University Press, 1995).
- B Salanie The Economics of Taxation (Cambridge: MIT Press 2003).
- R. Tresch, Public Finance (Revised edition), (McGraw-Hill, 2002).
- Committee on Ways and Means, Green Book – 2000 edition available at <http://aspe.hhs.gov/2000gb/>

1. Public goods**1.1 Voluntary Private Provision of Public Goods and Private Charity**

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- J. Andreoni, "An Experimental Test of the Public Goods Crowding Out Hypothesis," American Economic Review 83 (December 1993), 1317-1327.
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- B. Kingma, "An Accurate Measurement of the Crowd-Out Effect, Income Effect, and Price Effect for Charitable Contributions," Journal of Political Economy 97 (October 1989), 1197-1207.
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- R. Roberts, "Financing Public Goods," Journal of Political Economy 95 (1987), 420-437.

1.2 Efficient Public Goods Provision

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- C. Ballard and D. Fullerton, "Distortionary Taxes and the Provision of Public Goods," Journal of Economic Perspectives 6 (Summer 1992), 117-131.
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- T. Gaube, "When do Distortionary Taxes Reduce the Optimal Supply of Public Goods?" Journal of Public Economics, 76 (May 2000), 151-180.
- L. Kaplow, The Optimal Supply of Public Goods and the Distortionary Cost of Taxation
National Tax Journal v49, n4 (December 1996): 513-33
- M. King, "A Pigouvian Rule for the Optimal Provision of Public Goods," Journal of Public Economics 30 (1986), 273-292.
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1.3 Income Tax Deduction of Charitable Donations

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- C. Clotfelter, *Federal Tax Policy and Charitable Giving*, Chicago Press, 1985
- C. Clotfelter, "The Impact of Tax Reform on Charitable Giving: A 1989 Perspective," in J. Slemrod, ed., Do Taxes Matter? (Cambridge: MIT Press, 1990), 203-235.
- ^oP. Diamond, "Optimal Tax Treatment of Private Contributions for Public Goods with and without Warm Glow Preferences", MIT WP**
- M Feldstein A Contribution to the Theory of Tax Expenditures; The Case of Charitable Giving, The Economics of Taxation. ed. H Aaron and M. Boskin, 99-122. Brookings, 1980.
- W. Reece and K. Zieschung, "Consistent Estimation of the Impact of Tax Deductibility on the Level of Charitable Contributions," Econometrica 54 (1985), 271-293.
- E. Saez, The Optimal Treatment of Tax Expenditures, NBER WP 8037, 2000.

2. Tax Treatment of Estates

2.1 Background

2.1.1 Individual Motivation

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A. Bernheim, A. Shleifer, and L. Summers, "The Strategic Bequest Motive," Journal of Political Economy 93 (December 1985), 1045-1076.

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2.1.2 Annuities

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J. Brown, "Private Pensions, Mortality Risk, and the Decision to Annuitize," Journal of Public Economics, Vol. 82, No. 1, October 2001.

***J. Brown and J. Poterba, "Joint Life Annuities and the Demand for Annuities by Married Couples," The Journal of Risk and Insurance, 67[4], December 2000, 527-54.**

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J. Brown, "Are the Elderly Really Over-Annuitized? New Evidence on Life Insurance and Bequests," 2001, in D. Wise, ed., Themes in the Economics of Aging, University of Chicago Press for NBER.

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Accounts Retirement Program,” 2001, in J. Campbell and M. Feldstein, Risk Aspects of Investment-Based Social Security Reform. University of Chicago Press for NBER.

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[NBER](#) **T. Davidoff, J. Brown, and P. Diamond, “Annuities and Individual Welfare,” NBER WP 9714, 2003.**

B. Friedman and M. Warshawsky, “The Cost of Annuities: Implications for Saving Behavior and Bequests,” Quarterly Journal of Economics, 105 (1990), 135-154.

L. Kotlikoff and A. Spivak, “The Family as an Incomplete Annuities Market,” Journal of Political Economy, 89 (1981), 372-291.

O. Mitchell, J. Poterba, M. Warshawsky, and J. Brown, “New Evidence on the Money’s Worth of Individual Annuities,” American Economic Review Vol. 89, No. 5, December, 1999.

E. Sheshinski, Optimum and Risk-Class Pricing of Annuities, unpublished 2001.

2.2 Taxing Gifts to Individuals

Kaplow, Louis, A note on subsidizing gifts, Journal of Public Economics, 1995, 58: 469-478

2.3 Estate Taxes

H. Aaron and A. Munnell, "Reassessing the Role for Wealth Transfer Taxes," National Tax Journal 45 (June 1992), 119-144.

L. Arrondel and A. Laferrere, “Taxation and Wealth Transmission in France,” Journal of Public Economics, 79 (January 2001), 1, 3-33.

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B. Bernheim, R. Lemke, J. Scholz, "Do Estate and Gift Taxes Affect the Timing of Private Transfers," NBER Working Paper 8333, June, 2001

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3. Social Security

3.1. Social Insurance Theory

A.B. Atkinson, "Income Maintenance and Social Insurance," in A. Auerbach and M. Feldstein, eds., Handbook of Public Economics Volume 2 (Amsterdam: North Holland, 1987), 779-908.

P. Diamond, "A Framework for Social Security Analysis," Journal of Public Economics 8 (1977), 275-298.

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***P. Diamond, "Social Security" AER March 2004.**

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3.2 Within Cohort Theoretical Models

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3.3 Social Security, Saving, and Benefit Adequacy Issues

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^{NBER} M. Hurd and S. Rohwedder, "The Retirement-Consumption Puzzle: Anticipated and Actual Declines in Spending at Retirement," NBER Working Paper #9586, March 2003

3.4 Social Security and Labor Supply

^{NBER} S. Chan, A. H. Stevens, "What You Don't Know Can't Help You. Pension Knowledge and Retirement Decision Making." NBER Working Paper #10185, December 2003

^{NBER} C. Coile and J. Gruber, "Social Security and Retirement," NBER Working Paper #7830 August 1 2000.

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3.5. Social Security in OLG Growth Models

A. B. Abel, "Precautionary savings and accidental bequests", American Economic Review, September 1985, 75(4), 777-791.

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4. Unemployment Insurance

4.1 Unemployment Insurance – Theory

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