Econ 524: Public Finance
Princeton University
Spring 2022, Session II

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(subject Econ524)

Overview: This course provides graduate-level discussion of topics and methods in public finance.

Objectives: This course has two objectives. The first is to teach current topics and methods in public finance. The second is to advance students’ development as economists by providing training in the production of high-quality research. This training may help students read, contribute to, and draw from recent progress in this literature.

The course covers a wide variety of applied econometric and theoretical approaches. It also discusses applications of a wide variety of datasets and methods that are useful in many settings for public finance and applied economics research.

Requirements:
1. Required reading: Papers marked with two stars (**) are required reading
2. Problem Sets: There will be a couple problem sets focused on learning tools by going through applied examples in the problem set
3. Written response papers: There will be a few short written response papers due at 9 am on the day of lecture. These written response papers should be 1 page and should summarize a (*) paper that will be discussed in class and provide two “big picture” comments on the assigned paper (e.g., suggestions for future research, questions related to the paper that the paper does not address, alternative interpretations of the evidence, and major substantive concerns with the analysis (ideally with suggestions for investigating/addressing)). The goal is to get you to think actively, critically, and constructively about research.
4. Paper presentation: You will give one 10-15 slide presentation of a paper (assigned the first class). Please be sure to cover the following:
   a. Introduction: What is the specific question and why is the question of interest?
   b. Literature Review/ Contribution: How does your paper fit into the broader literature? What is the potential contribution of this paper relative to the existing literature? What do we learn about the world that we didn’t know before your paper?
   c. Theoretical Motivation: This could be actual theory or just a sketch of the relevant theory that underlies your question.
   d. Data: What data would you use to answer/address this question? Why are the data well suited to the question?
e. Empirical Methodology: How would you use the data to answer your question? Be explicit about identification and causality, keeping in mind that the same set of empirical facts can often support many theories.

f. Falsification Tests: What other specifications, tests and investigations could either bolster or cast doubt upon the primary tests of your hypotheses?

**Grades:**
1. 40% for the written response papers and class participation
2. 40% for problem sets
3. 20% for paper presentation

**Schedule (subject to change):**

- **Spatial Public Finance**
  - 1. Overview of spatial public finance & the Rosen Roback model
  - 2a. Place-based policies: theory
  - 2b. Place-based policies: evidence
  - 3. Sorting, Fiscal federalism

- **Capital Taxation**
  - 4. Capital taxation: overview, facts, and theory
  - 5. The distribution and taxation of wealth
  - 6. Capital Gains and Inheritance taxation
  - 7. Business tax policy and firm location

- **Tax policy, investment, and innovation**
  - 8. Investment and corporate financial policy
  - 9. Entrepreneurship, Innovation, and Top earners

**Assignments (subject to change):**

- Response to Alouy (2009) due before lecture 1 [Rosen Roback and PF]
- Problem Set on spatial taxation due before lecture 2 [Applied spatial modeling]
- Response to Bayer, Ferreira, and McMillan (2007) before lecture 3 [Heterogeneity and sorting in spatial public finance models]
- Response to Jakobsen Jakobsen Kleven, Zucman (2020) before lecture 4 [Linking theory and evidence to analyze capital tax policy]
- Problem Set on Capital Gains Score before lecture 6 [Revenue estimation]
- Problem Set on Million Dollar Plants due before lecture 7 [Event Studies]
- Problem Set on Entrepreneurship due before lecture 9 [Roy Model]

**Papers to present**

- Gaubert, Cecile, Pat Kline, and Danny Yagan 2020 “Place-based Redistribution,” R&R AER for lecture 2
- Diamond, Rebecca and Cecile Gaubert 2021 “Spatial Sorting and Inequality” for lecture 3
• Guvenen, et al. “Use it or Lose it: Efficiency Gains from Wealth Taxation” R&R QJE for lecture 4
• Chen, Zhao et al. 2021, “Tax Policy and Lumpy Investment Behavior: Evidence from China’s VAT Reform” RESTUD for lecture 8

Reading List (subject to change)

General References

A. Useful Textbooks


B. Public Economics Lecture Notes:


Stantcheva, Stefanie. Public Economics Lectures.  
https://scholar.harvard.edu/stantcheva/classes/ec2450a-public-economics-and-fiscal-policy-i

C. Applied Microeconomics Lecture Notes:

Card, David. Labor Economics Notes (Econ 250A).  
https://eml.berkeley.edu/~webfac/card/e250a_f16/e250a.shtml

Autor, David. Labor Economics Lecture Notes  
https://economics.mit.edu/faculty/dautor/courses

Murphy, Kevin. Chicago Price Theory.  
https://home.uchicago.edu/cbm4/cpt/index.html

D. Trade Lecture Notes:

https://sites.google.com/site/treballen/graduate-trade


**Overview of Public Finance and the Role of Government, Applied Tools [background]**

**NBER public economics program overview**  
http://www.nber.org/programs/pe/


**I. Spatial Public Finance, Rosen-Roback Model, Place-Based Policy [3 lectures]**

**A. Spatial Model:**


**B. Place-based Policies:**


**C. Agglomeration in Consumption (and Public Goods)**


### D. Big Push and Agglomeration in Production


### E. Fiscal Federalism, Sorting (skip some of these papers for time)


J. Donahue (1997). “Tiebout or not Tiebout.” JEP 11.4, pp. 73–82


II. Capital Taxation [4 lectures]


A. The Distribution and Taxation of Wealth


B. Capital Gains and Inheritance Taxation


C. Corporate Tax Incidence and Reform:


Joint Committee on Taxation, December 2017.

- Macroeconomic Analysis Of The Conference Agreement For H.R. 1, The "Tax Cuts And Jobs Act"
- Distributional Effects Of The Conference Agreement For H.R. 1, The "Tax Cuts And Jobs Act"
- Estimated Budget Effects Of The Conference Agreement For H.R. 1, The "Tax Cuts And Jobs Act"
- **https://www.jct.gov/publications.html?func=select&id=76**


**https://fas.org/sgp/CRS/misc/R45186.pdf**

D. Evidence on Firm Location, Corporate Taxes, and Million dollar plants


E. Corporate Taxation in an Open Economy


**III. Tax policy, Investment, and Innovation [2 lectures]**

A. Investment and Payout Taxes


B. Taxes, Innovation, Entrepreneurship

Furman, Jason, 2016, “Encouraging Innovation and the Role of Tax Policy”

**Jones, Chad, 2019, “Taxing Top Income in a World of Ideas,” working paper.**


Nirupama Rao “Do Tax Credits Stimulate R&D Spending? The Effect of the R&D Tax Credit in its First Decade”


