



北京大學  
汇丰商学院

Peking University HSBC Business School

# ECON516

## Economics of Public Issues

### Module 1, 2016-2017

#### Course Information

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**Instructor: Daeyong Lee, Ph.D.**

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**Classes:**

Lectures: M/Th 8:30-10:20

Venue: PHBS Building, Room 229

**Course Website:**

[http://cms.phbs.pku.edu.cn/claroline/course/index.php?cid=EPI\\_2016FL](http://cms.phbs.pku.edu.cn/claroline/course/index.php?cid=EPI_2016FL)

## 1. Course Description

### 1.1 Context

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 mainly covers 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.

Prerequisites:

For this class, students are required to have passed *microeconomics* with at least a "90", and *mathematics for economists* with at least a "90". Students with a background in Public Finance will find this class more accessible. Cf) Students who got below 80 for the "**Advanced**" *Microeconomics* course need to consult with an instructor before registration.

## 1.2 Textbooks and Reading Materials

### Required Textbook:

1. **Public Finance and Public Policy**, Jonathan Gruber, 4<sup>th</sup> ed. Worth Publishers. (JG)
2. **Handbook of the Economics of Finance**, Volume 2B Corporate Finance by George M. Constantinides, Milton Harris, Rene M. Stulz (HF2)
3. **Microeconometrics Using STATA**, Cameron and Trivedi, 2<sup>nd</sup> ed, Stata Press. (MS)

### Recommended References:

1. **Handbook of Public Economics**, Vol. 1~5, Alan J. Auerbach and Martin Feldstein (HP)
2. **Handbook of Health Economics**, Vol. 1A, Anthony J. Culyer and Joseph P. Newhouse (HH1)

Required (\*) and optional readings: A list of journal articles is provided below.

## 2. Learning Outcomes

### 2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	Exams Final assignment
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	Exams Final assignment
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	TA session Final assignment
	2.2. Students will be able to apply leadership theories and related skills.	Final assignment
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	Exams Final assignment
	3.2. Our students will practice ethics in the duration of the program.	Exams Final assignment
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	Lectures Exams Final assignment
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	Lectures Exams Final assignment
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	Exams Final assignment
	5.3. Our students will demonstrate competency in critical thinking.	Exams Final assignment

### 2.2 Course specific objectives

Please see Section 3 for specific course objectives.

### 2.3 Assessment/Grading Details

- Exam 1: 35%
- Exam 2: 35%
- Homework (final assignment): 30%

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

**Exam:**

There will be two exams (35% each). Both exams will include analytic (problem solving type) and short essay questions. Exam 1 will be in class on **Monday, October 10, 2016**. Exam 2 will be held in class on **Thursday, November 3, 2016**. **There will be NO make-up exams**. Please plan carefully your schedule for the 2016 Fall module ahead.

**Homework (final assignment):**

There will be 1 or 2 homework during the module. Homework covers problem solving, paper review, data analysis. Students must submit their homework by its due. **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.

**Rescheduling the Class:**

Class on September 15 → September 14 (*Mid-Autumn Day*)  
No class: A week from October 1 to October 7 (*National Day*)

**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.

## ***2.4 Academic Honesty and Plagiarism***

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

### 3. Topics, Teaching and Assessment Schedule

#### 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, MS Ch1.
- 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; HP1 Ch.2
- Taxation and Economic Efficiency – HP3 Ch.21
- Optimal Labor Income Taxation – HP5 Ch.7; HP1 Ch.4
- 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
- The behavior of Individual Investors – HF2 Ch.22
- 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: Health Care Reform**

**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&II: Medicare, Medicaid and Private Health Insurance – JG Ch.15, JG Ch.16
- Health Insurance and the Labor Market – HH1 Ch.7; HP4 Ch.33
- Health Care Reform, Affordable Care Act (ACA)
- Health Econometrics – HH1 Ch.6
- Income Distribution and Welfare Programs – JG Ch.17

### **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)

### **REFERENCES**

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**Amromin, Gene; Jennifer Huang and Clemens Sialm.** 2007. "The Tradeoff between Mortgage Prepayments and Tax-Deferred Retirement Savings." *Journal of Public Economics*, 91(10), 2014-40.

**Baicker, Katherine; Amy Finkelstein; Jae Song and Sarah Taubman.** 2014. "The Impact of Medicaid on Labor Market Activity and Program Participation: Evidence from the Oregon Health Insurance Experiment." *American Economic Review*, 104(5), 322-28.

**Bergstresser, Daniel and James Poterba.** 2004. "Asset Allocation and Asset Location: Household Evidence from the Survey of Consumer Finances." *Journal of Public Economics*, 88(9-10), 1893-915.

**Bitler, Marianne P; Jonah B Gelbach and Hilary W Hoynes.** 2005. "Welfare Reform and Health." *Journal of Human Resources*, 40(2), 309-34.

**Blouin, Jennifer L.; Jana S. Raedy and Douglas A. Shackelford.** 2011. "Dividends, Share Repurchases, and Tax Clienteles: Evidence from the 2003 Reductions in Shareholder Taxes." *Accounting Review*, 86(3), 887-914.

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**Chetty, Raj and Emmanuel Saez.** 2010. "Dividend and Corporate Taxation in an Agency

Model of the Firm." *American Economic Journal: Economic Policy*, 2(3), 1-31.

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**Dammon, Robert M.; Chester S. Spatt and Harold H. Zhang.** 2004. "Optimal Asset Location and Allocation with Taxable and Tax-Deferred Investing." *Journal of Finance*, 59(3), 999-1037.

**Gourio, François and Jianjun Miao.** 2011. "Transitional Dynamics of Dividend and Capital Gains Tax Cuts." *Review of Economic Dynamics*, 14(2), 368-83.

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**Grogger, Jeffrey.** 2002. "The Behavioral Effects of Welfare Time Limits." *The American Economic Review*, 92(2), 385-89.

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**Ivković, Zoran; James Poterba and Scott Weisbenner.** 2005. "Tax-Motivated Trading by Individual Investors." *American Economic Review*, 95(5), 1605-30.

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#### 4. Miscellaneous