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, ^-jstor.org, MIT - MIT electronic journals, NBER-NBER working papers, O=available online.

14.472 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.
Useful texts


1. Public goods

1.1 Voluntary Private Provision of Public Goods and Private Charity


1.2 Efficient Public Goods Provision


J. Laffont, Chapter 2.

1.3 Income Tax Deduction of Charitable Donations


O. Diamond, "Optimal Tax Treatment of Private Contributions for Public Goods with and without Warm Glow Preferences", MIT WP


2. Tax Treatment of Estates

2.1 Background
2.1.1 Individual Motivation


2.1.2 Annuities


2.2 Taxing Gifts to Individuals


2.3 Estate Taxes

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


Reading list 14.472 Spring 2004


L. Kaplow, A Framework for Assessing Estate and Gift Taxation, in Gale, Hines and Slemrod.


3. Social Security
3.1. Social Insurance Theory


3.2 Within Cohort Theoretical Models


3.3 Social Security, Saving, and Benefit Adequacy Issues


3.4 Social Security and Labor Supply


Reading list 14.472 Spring 2004


3.5. Social Security in OLG Growth Models


Ball, Lawrence, and N. Gregory Mankiw, Intergenerational risk Sharing in the Spirit of Arrow, Debreu, and Rawls, with Applications to Social Security Design, unpublished, 2001,


F. Breyer, 2001, Why Funding is not a solution to the “Social Security Crisis”, DP 328, IZA.


J. Dutta, S. Kapur, and M. Orszag, How to fund pensions: Income uncertainty and risk-aversion, Birkbeck Economics WP.

J. Dutta, S. Kapur, M Orszag, “A portfolio approach to the optimal funding of pensions”, Birkbeck Economics WP.


### 3.6 Social Security Reform: Overview & Political Economy


J. Liebman, Redistribution in the Current Social Security System, NBER WP 8625.

Assar Lindbeck and Mats Persson, The Gains from Pension Reform, Journal of Economic Literature, XLI, 1, March, 74-112. 2003..


President’s Commission to Strengthen Social Security. Interim Report

President’s Commission to Strengthen Social Security. Report


4. **Unemployment Insurance**

4.1 Unemployment Insurance – Theory


4.2 Unemployment Insurance and Worker Behavior


4.3 Unemployment Insurance and Firm Behavior


5. Workers' Compensation


6. Disability Insurance


Reading list 14.472 Spring 2004
7. Government Redistributioanal Programs

7.1 Traditional Cash Welfare


7.2. Effects of Welfare Reform


8. Government Intervention in Health Insurance Markets

8.1 Health Insurance, Moral Hazard, and Adverse Selection


8.2 Medicaid, the Uninsured, and Long Term Care


*R. McKnight, “Home Care Reimbursement, Long Term Care Usage, and Health Outcomes,” mimeo, MIT.

8.3 Medicare & Provider Issues


*J. Newhouse and D. Byrne, “Did Medicare’s Prospective Payment System Cause Length of Stay to Fall?,” Journal of Health Economics 7(4) (December 1988), 413-416.

8.4 Health Insurance and the Labor Market


8.7 Health Externalities - Smoking


*Chaloupka Frank J., and Kenneth Warner (2000). ”The Economics of Smoking,” in Anthony Culyer and


