

Winter Semester 2019/2020

The tax and transfer system – Empirical policy evaluation (Empirische Analysen des Steuer und Transfersystems, 107044)

Prof. Dr. Peter Haan (phaan@diw.de)
Renke Schmacker (rschmacker@diw.de)
Björn Fischer (bfischer@diw.de)
DIW Berlin

Office hours: by appointment

Lecture:
Thu 14.15-15.45
Thu 16.15-17.45 (selected weeks, see below)
Room: Hs 328 (Bolzmann Str. 16-20)

The first lecture will be on Thursday 17.10.2019.

Course Description

The aim of this course is to discuss the distributional, fiscal and behavioral effects of taxation and public policy. Topics include the effect of income taxation on labor supply, the design of transfer programs, such as unemployment insurance, of the pension system or of family policy. Further, there will be a strong focus on the effect of the demographic change on the pension system. We will develop and discuss different empirical methods to answer these questions.

The central goal of this course is to provide an introduction how to use empirical methods to answer important policy and economic questions. The prerequisites are intermediate microeconomic and macroeconomic theory and principles in econometrics. When discussing the relevant literature, we will focus not only on the policy content, but also on the empirical strategy and evaluation methods. There will be computer based exercises to apply these methods. The preferred empirical software is STATA which is installed on the computers in the PC pool. Finally, it is the aim of the course to provide an overview about the institutions of a welfare state and the current discussion about reforming or changing welfare states in particular in the context of the demographic change. The leading example will be the German tax and transfer system and the current political debate in Germany.

Requirements

There are two requirements for this course. First, you have to hand in three problem sets. These problem sets will be graded and account for 30% of the final grade. Please make photocopies of your problem sets prior to submitting them. The problem set will comprise

theoretical and computer exercises and require to summarize and to discuss relevant journal articles. Second, there will be a final exam which accounts for 70% of the final grade.

Course Timetable (preliminary):

Vorlesung	Thema	Übung	Thema	Home work
Do., 17.10.2019 14:00 - 16:00	Organisation/ Introduction	Do., 17.10.2019 16:00 - 18:00	OLS + STATA	
Do., 24.10.2019 14:00 - 16:00	Basic Empirics: OLS and Extentions			
Do., 31.10.2019 14:00 - 16:00	Consumption Behavior/ Taxation	Do., 24.10.2019 16:00 - 18:00	Diff in Diff and IV	1. Hausaufgabe
Do., 7.11.2019 14:00 - 16:00	Consumption Taxation - Tax Saliencie			
Do., 14.11.2019 14:00 - 16:00	Income Taxation: Labor supply behavior	Do., 14.11.2019 16:00 - 18:00	1. Hausaufgabe Besprechung	
Do., 21.11.2019 14:00 - 16:00	Income Taxation: Labor supply behavior			2. Hausaufgabe
Do., 28.11.2019 14:00 - 16:00	Income Taxation: Joint versus individual taxation	Do., 28.11.2019 16:00 - 18:00	RDD	
Do., 05.12.2019 14:00 - 16:00	Tax incidence			
Do., 12.12.2019 14:00 - 16:00	Unemployment insurance	Do., 12.12.2019 16:00 - 18:00	2. Hausaufgabe Besprechung	3. Hausaufgabe
Do., 19.12.2019 14:00 - 16:00	Unemployment insurance			
Ferien				
Do., 9.01.2020 14:00 - 16:00	Pension system/ Demographic change - Overview			
Do., 16.01.2020 14:00 - 16:00	Pension system/ Demographic change – Employment			
Do., 23.01.2020 14:00 - 16:00	Pension system/ Demographic change Savings	Do., 23.01.2020 16:00 - 18:00	3. Hausaufgabe Besprechung	
Do., 30.01.2020 14:00 - 16:00	Pension system/ Demographic change Consumption			
Do., 06.02.2020 14:00 - 16:00	Pension System			
Do., 15.02.2020 14:00 - 16:00	Q & A	Do., 15.02.2020 16:00 - 18:00	Q & A	

Readings (preliminary)

The **required papers** for each week are listed below and are marked with an **asterisk**. The additional papers are optional.

Empirical Methods

- Wooldridge, Jeffrey M., **Introductory econometrics: a modern approach**, international student edition. 4th ed., Mason, Ohio: Thomson, 2009.
- Cameron, Colin and Trivedi Pravin, **Microeconometrics: Methods and Applications**, Cambridge University Press, New York 2005.

Introduction: The role of a government in a welfare state

- Barr, N. (2004), **Economics of the Welfare State** (4th ed.), Oxford University Press
- Corneo, G. (2009), **Öffentliche Finanzen: Ausgabenpolitik** (3. Auflage), Tübingen: Mohr-Siebeck
- Homburg, Stefan (2010), **Allgemeine Steuerlehre** (6. Auflage), München: Vahlen
- Salanié, B. (2003), **The Economics of Taxation**, MIT Press
- **Dimensions of Tax Design: The Mirrlees Review (2010)**, J. Mirrlees, S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba (eds), Oxford University Press.
http://www.ifs.org.uk/mirrleesreview/dimensions/mirrlees_dimensions.pdf

Consumption Behavior and Taxation

- *Adda, J. and F. Cornaglia (2010), **The effect of bans and taxes on passive smoking**, *American Economic Journal: Applied Economics*, 2(1), pp. 1-32.
- Crawford, I., Keen, M. and S. Smith (2010), **Value Added Tax and Excises**, in: *Dimensions of Tax Design: The Mirrlees Review*.
- *Chetty, R., Adam Looney and Kory Kroft (2009), **Salience and Taxation: Theory and Evidence**, *American Economic Review*, 99(4), pp. 1145-1177.
- Evans, W. and J. Ringel (1999). **Can Higher Cigarette Taxes Improve Birth Outcomes?**, *Journal of Public Economics*, 72(1), pp. 135-154.

Income Taxation: Labor supply behavior

- *Blundell, R., A. Duncan, and C. Meghir (1998), **Estimating Labor Supply Responses Using Tax Reforms**, *Econometrica*, 68, pp. 827-861.
- *Eissa, N. (1995), **Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment**, NBER Working Paper No. 5023.

Income Taxation: Taxable income elasticity

- Feldstein, M. (1995), **The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act**, *Journal of Political Economy*, 103 (3), pp. 551-572.
- *Gruber, J. and E. Saez (2002), **The Elasticity of Taxable Income: Evidence and Implications**, *Journal of Public Economics*, 84, pp. 1-32.
- Saez, E., Slemrod, J. and S. Giertz (2011), **The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review**, *Journal of Economic Literature*, 50(1), pp. 3-50.

Income Taxation: Joint versus individual taxation

- Alesina, A., Ichino A. and L. Karabarbounis (2011), **Gender-Based Taxation and the Division of Family Chores**, *American Economic Journal: Economic Policy*, 3(2), pp. 1-40. (or NBER working paper 13638)
- Crossley, T. and S. Jeon (2007), **Joint Taxation and the Labour Supply of Married Women: Evidence from the Canadian Tax Reform of 1988**, *Fiscal Studies*, 28, pp. 343-365.
- *LaLumia, S. (2008), **The Effects of Joint Taxation of Married Couples on Labor Supply and Non-wage Income**, *Journal of Public Economics*, 92(7), pp. 1698-1719.
- *Steiner V. and K. Wrohlich (2004), **Household Taxation, Income Splitting and Labor Supply Incentives - A Microsimulation Study for Germany**, *CESifo Economic Studies*, 50 (3), pp. 541-568.

Tax incidence

- *Matsaganis, M., Saez E. and P. Tsakloglou (2012), **Earnings Determination and Taxes: Evidence from a Cohort Based Payroll Tax Reform in Greece**, *Quarterly Journal of Economics*, 127(1), pp. 493-533.
- Gruber, J. (1997), **The Incidence of Payroll Taxation: Evidence from Chile**, *Journal of Labour Economics*, 15 (3), pp. 72-101.

Unemployment insurance

- *Hunt, J. (1995), **The Effect of Unemployment Compensation on Unemployment Duration in Germany**, *Journal of Labor Economics*, 13(1), pp. 88-120.
- *Lalive, R., van Ours, J., and J. Zweimüller (2006), **How Changes in Financial Incentives Affect the Duration of Unemployment**, *Review of Economic Studies*, 73(4), pp. 1009 - 1038.
- Lalive R. (2008), **How do Extended Benefits affect Unemployment Duration? A Regression Discontinuity Approach**. *Journal of Econometrics*, 142(2), pp. 785-806.
- *Bender, S. , J. Schmieder, T. von Wachter (2012), **The Effects of Extended Unemployment Insurance Over the Business Cycle: Evidence from Regression Discontinuity Estimates Over 20 Years**, *Quarterly Journal of Economics*, 127(2), pp. 701-752.
- Landais, C. (2015), **Assessing the Welfare Effects of Unemployment Benefits Using the Regression Kink Design**, *American Economic Journal: Economic Policy*, 7(4), pp. 243-78.

Demographic Change and Public Policy – Overview

- *Lee, R. (2003), **The demographic transition : three centuries of fundamental change**", *Journal of Economic Perspectives*, Vol. 17, No. 4, pp. 167-190.
- Oeppen, J. and Vaupel, J. (2002), **Broken limits to life expectancy**", *Science*, 296 (5570), pp. 1029-1031.
- Cutler, D., Deaton, A. and Lleras-Muney, A. (2006), **The Determinants of Mortality'**, *Journal of Economic Perspectives*, Vol. 20, No. 3, pp. 97-120.
- Haan, P. Kemptner, D. and H. Lüthen (2017): **The Rising Longevity Gap by Lifetime Earnings: Distributional Implications for the Pension System**, DIW Discussion paper 1698

Demographic Change and Pension system – Employment

- Mastrobouni, G. (2009), **Labor Supply Effects of the Recent Social Security Benefit Cuts: Empirical Estimates Using Cohort Discontinuities**, *Journal of Public Economics*, 93(11-12), pp. 1224-1233.
- *Manoli, D., Mullen, K. J. and Wagner, M. (2015), **Policy Variation, Labor Supply Elasticities, and a Structural Model of Retirement**, *Economic Inquiry*, 53, pp. 1702–1717.
- *Straubli, S. and J. Zweimüller (2013), **Does Raising the Early Retirement Age Increase Employment of Older Workers?**, *Journal of Public Economics*, 108, pp. 17-32.

- Kostol, R. and M. Mogstad (2014), **How Financial Incentives Induce Disability Insurance Recipients to Return to Work**, *American Economic Review*, 104(2), pp. 624-55.

Demographic Change and Pension system – Savings

- Attanasio O. and S. Rohwedder (2003), **Pension Wealth and Household Saving: Evidence from Pension Reforms in the U.K.**, *American Economic Review*, 93, pp. 1499–521.
- Duflo, E., Gale, W., Liebman, G., Orszag, P. and E. Saez (2006), **Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block**, *Quarterly Journal of Economics*, 121(4), pp. 1311-1346
- Gelber A. (2010), **How do 401(k)s Affect Saving? Evidence from Changes in 401(k) Eligibility**, *American Economic Journal: Economic Policy*, 3(4), pp. 103-122.

Demographic Change and Pension system – Consumption

- Aguiar, M. and E. Hurst (2005). **Consumption vs expenditure**. *Journal of the Political Economy* 113 (5), 919-948.
- Aguiar, M. and E. Hurst (2013). **Deconstructing lifecycle expenditure**. *Journal of Political Economy* 121 (3), 437-492.
- Banks, J., R. Blundell, and S. Tanner (1998). **Is there a retirement-savings puzzle?** *American Economic Review* 88 (4), 769-788.
- Battistin, E., A. Brugiavini, E. Rettore, and G. Weber (2009). **The retirement consumption puzzle: Evidence from a regression discontinuity approach**. *American Economic Review* 99 (5), 1109- 1116.
- Bernheim, B. D., J. Skinner, and S. Weinberg (2001). **What accounts for the variation in retirement wealth among U.S. households**. *American Economic Review* 91 (4), 832-857.

Demographic Change and Pension system – Presentation of students

- Rafael Lalive and Pierpaolo Parrotta. 2017. **How does pension eligibility affect labor supply in couples?** *Labor Economics*, 46: 177-188. DOI: 0.1016/j.labeco.2016.10.002.
- Geyer, Johannes and Welteke Clara, 2017, **Closing Routes to Retirement: How Do People Respond?** DIW DP 1653
- Eibich, P., 2015. **Understanding the effect of retirement on health: Mechanisms and Heterogeneity**, *Journal of Health Economics*, 43,1-12.

- Aguilu, E., O. Attanasio, and C. Meghir (2011). **Changes in consumption at retirement: Evidence from panel data**. Review of Economics and Statistics 93 (3), 1094-1099.