ECON 342: Public Finance

Kyle Coombs (`kcoombs@vassar.edu`)
Department of Economics, Vassar College

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E-mail: `kcoombs@vassar.edu`   Website: **kylecoombs.com**
Office Hours: Tuesday 2-3pm, Thursday 10:55-11:55am   Class Hours: T/Th 12-1:15pm
Office: Blodgett 134   Classroom: Kenyon 134
Course Website: Moodle
OH Link: **https://tinyurl.com/kgc-oh**

Course Description

The course explores the role of governments in market economies, focusing on why, how, and when they intervene, and the consequences of such policies. We will cover empirical and theoretical tools, externalities, social insurance, and tax policy.

The class builds on microeconomic foundations, with a strong focus on actual policies and empirical applications. We will address both normative (what should be done) and positive (what is done) questions.

Course Objectives

By the end of this course, you should be able to:
1. Understand government roles in market economies
2. Evaluate government interventions using econometric research
3. Assess effects of interventions on economic outcomes
4. Understand and contrast optimal and actual government financing

Required Materials

- All course materials are on Moodle.
- Required: "Taxing Ourselves" by Joel Slemrod and Jon Bakija (MIT Press, 2017). Library has an e-book version at: `https://research.ebsco.com/plink/33c40113-268a-352e-86a5-268a23cff217`
- Recommended: "Public Finance and Public Policy" by Jonathan Gruber (7th edition preferred).

Textbook Affordability

The College supports affordable textbooks. Visit the MAT website for resources: https://library.vassar.edu/mat.

Prerequisites

ECON 201. Background in intermediate microeconomics is assumed.

Teaching Assistant

No teaching assistant for this course.

Grading Policy

Grades are based on a midterm, final, problem sets, class jobs, and a policy brief/presentation. No make-up exams. Excused absences may adjust final/midterm weight to 50%.

- **25%** Midterm
- **25%** Final
- **15%** Four out of five problem sets (lowest dropped)
- **10%** Class jobs
- **25%** Policy brief and presentation:
  - **15%** Policy brief
  - **10%** Policy presentation

2.5% bonus for exceptional participation. Opportunities for bonus points on exams by submitting questions.

Problem sets are on Moodle. Submit online and in hard copy. Group work encouraged, but individual submissions required.

Moodle

I will endeavour to post your grades on Moodle as soon as possible. However, take it with a grain of salt as there can be delays due to my own turnaround time, and more often technical issues. I will prioritize that grades are up to date at before the midterm and final.

Class Jobs

Each class, I will randomly select three students to perform tasks: reading summary, prior class summary, or note-taking. Graded on a 0-2 scale: 0 for no contribution, 1 for minimal effort, 2 for satisfactory/exceptional effort.

Job Descriptions

Reading Summary   Address these points:

1. Main idea or research question
2. Methods used
3. Data used (if empirical)
4. Main findings
5. Main limitations
6. Main implications

Prior Class Summary   Include:

- Lecture topic
- Main learning goals in your own words
- Any remaining questions

Note Taker Take comprehensive notes and post to Moodle's "Class notes" forum. Include any questions you have that others may find useful.

Policy presentation and brief

Throughout the semester, you will work in groups of 3-4 to present on a current policy topic and write a policy brief. This task allows you to apply class concepts to real-world policy issues. Your objectives are to justify the need for a policy, critique the current one, and suggest improvements. The presentation is 15 minutes, followed by a 5-minute discussion, and will be graded on clarity, depth, and class engagement.

The brief should be concise, informative, and accessible, resembling those from Brookings (`https://www.brookings.edu/series/brookings-policy-brief-series/`) or Stanford (`https://siepr.stanford.edu/research/publications/policy-briefs`). Write as a group or individually.

Ensure the brief is detailed, grounded in theory and evidence, and free of jargon. Assume your reader is aware of policy, but has not gone beyond introductory economics. Use your own research and follow citation styles. Avoid plagiarism.

Start your brief with statistics to engage readers and set the context. Identify and explain 2-3 criteria to evaluate existing policies and estimate the effects of proposed ones. Use these criteria for your analysis, critically assessing research methods. Conclude with policy recommendations, using "If..., then..." statements if helpful. The brief should be no more than 1800 words and include 1-3 figures or tables.

Potential policy topics

- Social security reform
- Student loan forgiveness
- Income tax on tips
- Import tariffs
- Emergency Unemp Insurance
- Health care reform
- Optimal tax progressivity
- Taxes versus permits for GHG
- Optimal obesity policy
- Subsidies in agriculture

- Corporate tax reform
- Urban sprawl
- Sin taxes
- Reduction of gasoline use
- Sex education policies
- Financing fertility treatments
- Abortion access
- Value added taxation
- Estate tax
- Welfare to work

- Charter schools
- Education vouchers
- Teacher quality/pay
- Consumption ("flat") tax
- Funding of sports stadiums
- School district funding
- "No Child Left Behind"
- Gun control policies
- Optimal ethanol subsidy/tax

Course Policies

During Class

Use computers only for class activities. No phones. Eating and drinking are allowed but should not disrupt class.

Office Hours

Each of you has valuable questions and I encourage you to ask them during class, as others may have the same question. We can explore those questions further individually or in small groups in office hours (times listed above, or by appointment as needed).

To help you get the most out of office hours, I ask that you to come prepared with relevant questions. For example, I ask that you have tried to solve a problem set before coming to office hours, so we can look at your attempts together.

Contacting Me

Private questions

You can also contact me outside of Office Hours by email. Please include [ECON 342] and a brief description of your question in the subject line of your email, so I can easily find it. For example, "[ECON 342]: Question about problem set 1" or "[ECON 342]: Elasticity formula."

I will respond to emails related to the course once per day at 5pm. If a conversation goes beyond a few emails, I will ask you to come to office hours to more thoroughly and efficiently discuss your question.

Public good questions

Some questions will benefit everyone, like "When is Pset X due?" or "Are we supposed to assume risk aversion in Q1?" I ask that you post these to various forums posted on the class Moodle. There is a dedicated forum for each problem set, the policy brief, and general questions.

Bonus: Check here to see if anyone already asked/answered your question. If you answer someone's question, that will help you gain the "participation" bonus.

Artificial Intelligence

The following policy is adapted from the Journal of Public Economics and language from the former Dean of Faculty (Bill Hoynes) and Dean of Studies (Tom Porcello):

Students must declare the use of generative AI in work this course. Such use is consistent with learning to evaluate government interventions empirically and communicate your evaluation effectively.

AI works best in concert with your own ingenuity. The technology must be applied with human oversight and control and students should carefully review and edit the result, as AI can generate authoritative-sounding output that can be incorrect, incomplete or biased. Students are ultimately responsible and accountable for the contents of the work; for example, your submission should not contain misinformation or unethical content.

Plausible uses of AI in this course

Writing: Use AI to improve readability and language. Acknowledge and cite AI use.

For coding assignments: Generative AI and AI-assisted technologies can be used in all steps of the coding process. This process will go much more smoothly if you have a clear idea of what you empirical coding task you are trying to accomplish. You must acknowledge your use of generative AI and must properly cite AI generated content in order to comply with college policies on academic integrity.

Math: Use AI for hints and checking work. Acknowledge and cite AI use.

Artificial Intelligence Citation

Consult APA resources for citing AI. Failure to cite AI results in a grade of 0.

Do not list AI as an author.

Declare AI use in assignments with a statement. Example:

Declaration of generative AI and AI-assisted technologies in the writing process.

Statement: During the preparation of this work the author(s) used [NAME TOOL / SERVICE] in order to [REASON]. After using this tool/service, the author(s) reviewed and edited the content as needed and take(s) full responsibility for the content of the published article.

Attendance Policy

Attendance is expected but not mandatory. It is crucial for learning and success. Also, you may miss doing a class job if you miss class.

Policies on Incomplete Grades and Late Assignments

I approve extensions. Late problem sets incur a 50% penalty if submitted within 2 days. Beyond that, they receive a 0.

Academic Integrity and Honesty

Students are required to comply with the Vassar policy on academic integrity in Section 3.4 of Academic and Library Regulations for Students (https://docs.google.com/document/d/1Pvpf0PaPrrfRwWZzM3wsrd1qD1ioUWPlJE-ItnkK98Q/preview). Don't cheat. Don't copy solutions from online repositories of course materials. Don't be that person. You know exactly what I'm talking about. More information on academic integrity and attribution can be found at https://offices.vassar.edu/dean-of-the-college/documents/sources/.

Cheating includes uploading materials to sites like Chegg or CourseHero. Violations face disciplinary action.

Title IX

If you (or someone you know) have experienced sexual harassment or sexual violence, including sexual assault, relationship violence, or stalking, know that you are not alone. Vassar has staff trained to support you in navigating campus life, accessing health and counseling services, providing academic and housing accommodations, and more. Vassar strongly encourages all community members to take action, seek support, and report incidents to the EOAA/Title IX Office at (845) 437-7924 or titleix@vassar.edu. For more information about confidential support on- and off-campus, https://offices.vassar.edu/savp/resources/.

Please be aware that faculty members must disclose information about suspected or alleged sexual harassment or other potential sexual misconduct to the EOAA/Title IX Office. When the EOAA /Title IX Office receives information, they will reach out to offer information about resources, rights, and procedural options. Response to this outreach and further participation with the EOAA / Title IX Office is voluntary. Meeting with EOAA / Title IX does not mean you must file a formal complaint or report to another entity, including law enforcement. This meeting can be for information and support only or to file a complaint and receive support.

Academic support

Resources at the Teaching, Learning, and Research Center (TLRC):
- Writing Center: https://offices.vassar.edu/ltrc/writing-center/
- Q-tutors: https://offices.vassar.edu/ltrc/qrc/
- Peer Academic Consultants: https://offices.vassar.edu/ltrc/peer-academic-consultants/

Academic Accommodations

I try to design the course with the ideal of "universal access" in mind. The following statement is from the Dean of Studies Office: *Academic accommodations are available for students who are registered with the Office of Accessibility and Educational Opportunity (AEO). Students in need of disability (ADA/504) accommodations should schedule an appointment with me early in the semester to discuss any accommodations for this course, which have been approved by the Office of Accessibility and Educational Opportunity, as indicated in your AEO accommodation letter.*

Accommodations for Families

If you are a parent or guardian of a child, and you are unable to attend class and care for that child for class one day, please be in touch in case you need further accommodations.

Religious Observances During Class Times

Students who wish to request academic accommodations for a religious observance should email me no later than the end of the add period for Full-Term and First Six-Week courses. While requests can be made at any time, accommodations may be more limited if submitted after this period. If you have questions or concerns about your request, please contact the Office of Religious and Spiritual Life and Contemplative Practices or the Office of the Dean of Studies. Please note that accommodations do not exempt you from completing any coursework missed as a result of a religious observance.

Key Due Dates

Assignment due dates may shift as needed for your learning. Problem sets are due at the start of class on Tuesday of the posted week. Submit on Moodle and bring a printed copy.

Problem Set Due Dates

Assignment	Concepts	Week Due
Problem Set 1	Review	Week 3
Problem Set 2	Tax Incidence, Excess Burden, Low-Income Support	Week 4
Problem Set 3	Optimal Taxation	Week 6
Problem Set 4	Externalities & Public Goods, Social Insurance	Week 11
Problem Set 5	Moral Hazard, Adverse Selection, Tax Evasion	Week 14

The policy brief is divided into parts to ensure progress. Late drafts incur a 25% penalty. Peer review will occur in class.

Policy Brief Due Dates

Portion	Key Info	Week Due
Question	What are you studying?	Week 3
Annotated Bibliography	Survey literature	Week 5
Context or Scope of Problem	Explain problem with relevant stats	Week 8
Policy Alternatives/Recommendation	Describe and evaluate solutions	Week 10
Draft brief	Put it all together	Week 12
Final Draft	1800 words, ≤ 3 figures/tables	End of study period

Schedule and weekly learning goals

The schedule is tentative and subject to change. Learning goals are key concepts to grasp each week and serve as a study guide. Exams cover all prior material. The final is cumulative. *Chapter numbers are from Gruber's book. Bolded readings are reading summary assignments.*

Week 1:   Introduction & Review

Tuesday, 09/02: **Introduction** (Chapter 1)
- Establish goal of public policy
- Overview of US government finances

Thursday, 09/04: **Micro theory and empirical review** (Chapters 2 & 3)
- Review supply and demand curves, utility maximization problem, and budget constraint
- Introduce/review Pareto efficiency
- First and second fundamental welfare theorems
- Review empirical methods to separate causation and correlation

Reading: Eissa and Liebman (1996) and Cunningham (2021) Chapter 1 (**Other good readings**: Angrist and Pischke (2010), Finkelstein and Hendren (2020), Donaldson (2022))

Taxes

Week 2:   Tax incidence & Excess Burden

Tuesday, 09/09: **Tax incidence** (Chapter 19)
- Differentiate statutory and economic incidence
- Contrast partial and general equilibrium incidence of taxation
- Evaluate the role of elasticity in determining economic incidence

Readings: Slemrod and Bakija (2017) Chapter 1 & Amiti et al. (2019) (**Other good readings**: Kopczuk and Munroe (2015))

Thursday, 09/11: **Excess Burden** (Chapter 20)
- Calculate deadweight loss
- Evaluate the role of elasticity in the cost of taxation

Readings: Oates and Schwab (2015) (**Other good readings**: Chetty (2009), Kopczuk and Munroe (2015))

Week 3:   Taxation in practice

Tuesday, 09/16: **Taxation in practice** (Chapter 18)
- Recognize the types of taxation and know their relative size in the budget
- Characterize the equity and efficiency tradeoffs in optimal taxation
- Understand role of elasticity in determining optimal taxes that reduce excess burden

Readings: Slemrod and Bakija (2017) Chapter 2 (**Other good readings**: Mankiw et al. (2009), Robinson and Tazhitdinova (2025), Zidar (2019))

Thursday, 09/18: **Library session on research - Prof Coombs away**

Week 4:   Inequality & Low-Income Suport (Chapter 17)

Tuesday, 09/23: **Inequality** (Chapter 18)
- Characterize wealth vs. income inequality in USA
- Identify equity versus efficiency trade-offs of different policies
- Define social welfare functions

Readings: Clarke and Kopczuk (2025) (**Other good readings**: Slemrod and Bakija (2017) Chapter 3), Auerbach (2025)

Thursday, 09/25: **Low-Income Suport** (Chapter 17)
- Calculate implied marginal tax rate from the EITC and evaluate labor supply consequences
- Analyze the labor supply incentives associated with welfare programs
- Evaluate, in-kind transfers, role of targeting in reducing moral hazard of welfare programs

Readings: Reina et al. (2025a), and policy brief: Reina et al. (2025b) (**Other good readings**: Deshpande and Li (2019), Vivalt et al. (2024), Currie and Gruber (1996), Hoynes et al. (2016), Bailey et al. (2020), Besley (1990), Bitler and Hoynes (2016))

Week 5:   Optimal Commodity & Income Taxation

Tuesday, 09/30: **Optimal Commodity Taxation** (Chapter 20)
- Characterize the equity and efficiency tradeoffs in optimal taxation
- Define additivity and separability assumptions
- Identify role of price elasticity in determining optimal taxes that reduce excess burden

Reading: (**Other good readings**: Zidar (2019), Chetty et al. (2009), Feldstein and Taylor (1976), Saez (2010))

Thursday, 10/02: **Optimal Income Taxation** (Chapter 21)
- Characterize the equity and efficiency tradeoffs in optimal taxation
- Understand role of labor supply elasticity in determining optimal taxes that reduce excess burden

Reading: Slemrod and Bakija (2017) Chapter 3 & Saez (2010) (**Other good readings**: Zidar (2019), Chetty et al. (2009), Mortenson and Whitten (2020), Feldstein and Taylor (1976))

Week 6:   Behavioral responses, tax compliance (Chapter 21) & Business taxation (Chapter 22)
Tuesday, 10/07:
- Identify and define forms of Behavioral responses like bunching, tax evasion
- Evaluate the excess burden of non-labor supply responses to taxation (evasion, fringe benefits over salary)

Reading: Kleven et al. (2011) (**Other good readings:** Bergolo et al. (2023), Alstadsæter et al. (2022), Feldstein (1999), Alstadsæter et al. (2019), Pomeranz (2015), Hallsworth et al. (2017))

Thursday, 10/09:
- Evaluate different approaches to and models of capital taxation
- Identify how government taxation of capital can reduce risk
- Contrast pass-through and realization approaches to taxation

Reading: Smith et al. (2022) (**Other good readings**: Smith et al. (2019))

Week 7: Tax reform (Chapter 24) and midterm
Tuesday, 10/14: **Tax reform** (Chapter 24)
- Identify different approaches to tax reform
- Evaluate proposals to reform the tax code

Reading: Slemrod and Bakija (2017) Chapters 5 & 6

Thursday, 10/16: **Midterm**

Week 8, 10/21 - 10/23: Break 10/21-10/23 Enjoy your break (and do a bit of work)

Market failures

Week 9: Externalities and public goods (Chapters 5 and 6)
Tuesday, 10/28:
- Differentiate externalities from spillovers that are priced by the market
- Compare the market equilibrium with an externality against the Pareto efficient equilibrium
- Evaluate taxes, subsidies, bans, and other policies to manage externalities

Reading: Bento et al. (2014) (**Other good readings**: Andersson (2019), Rudik (2020), Martinsson et al. (2024), Metcalf and Stock (2023), Barreca et al. (2016), Marron and Toder (2014), Chay and Greenstone (2005), Knittel and Sandler (2018), Graff Zivin et al. (2023))

Thursday, 10/30:
- Categorize public, private, club, and pooled resource goods
- Understand free riding problem can lead to underprovision of public goods

Reading: Gruber and Hungerman (2007) (**Other good readings**: Duquette (2016))

Week 10: Social Insurance (Chapter 12)
Tuesday, 11/04:
- Solve for optimal insurance provision
- Define and differentiate moral hazard and adverse selection

Reading: Chetty (2006) (**Other good readings**: Chodorow-Reich et al. (2022), Kroft and Notowidigdo (2016), Chetty and Looney (2006), Chetty and Looney (2007))

Thursday, 11/06:
- Identify role of government in solving adverse selection and moral hazard
- Explore changes to UI during recessions

Reading: Coombs et al. (2022) and Holzer et al. (2021) (**Other good readings**: Chodorow-Reich et al. (2022), Kroft and Notowidigdo (2016), Chetty and Looney (2006), Chetty and Looney (2007), Chetty (2006))

Week 11: Major Social Insurance Programs: Unemployment, Disability, and Social Security (Chapters 13 and 14)
Tuesday, 11/11:
- Isolate reasons government is involved in different social insurance markets
- Identify potential moral hazard in each social insurance program

- Evaluate sustainability of and reforms to social security

Readings: Luttmer and Samwick (2018) & Primus et al. (2023) (**Other good readings**: Ganong and Noel (2019), Liebman and Luttmer (2015), Biggs (2023))

Thursday, 11/13:
- Characterize tradeoffs balanced by optimal insurance for each major program
- Identify hassle mechanisms

Reading: Deshpande and Li (2019) (**Other good readings**: Ganong et al. (2024), Boone et al. (2021), Coombs (2024), Ganong and Noel (2019), Acosta et al. (2023), Schmieder and Von Wachter (2016), French and Song (2014))

Week 12: Health Insurance (Chapters 15 and 16)
Tuesday, 11/18:
- Identify different health care systems in the United States
- Characterize moral hazard and adverse/advantageous selection in health insurance

Reading: Finkelstein et al. (2012) (**Other good readings**: Einav and Finkelstein (2011), Einav et al. (2013))
Thursday, 11/20:
- Identify different health care systems in the United States
- Characterize moral hazard and adverse/advantageous selection in health insurance

Reading: Einav and Finkelstein (2011) (**Other good readings**: Dobkin et al. (2018), Aron-Dine et al. (2013))

Week 13: Thanksgiving: Peer review of policy briefs
Tuesday, 11/25: Peer review of policy brief drafts
Reading: McCloskey (2000)
Thursday, 11/27: Turkey day! Gobble, gobble!

Week 14: Catch-up day
Tuesday, 12/02:
- Catch-up day
Reading: TBD
Thursday, 12/04: Student policy presentations

Week 15: Student policy presentations
Tuesday, 12/09: Student policy presentations
Thursday, 12/11: No class!

References

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Declaration of generative AI and AI-assisted technologies in the writing process.

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