

Public Economics
PS #4
due:November 13th in class

Reading requirement for the class

1. In the class in this Wednesday, we will study a paper by Eissa, "Taxation and labor

supply of married women: The Tax Reform Act of 1986 as a Natural experiment, NBER working

paper No.5023, which is available on the class website.

To encourage students to read the paper in advance, answer the following questions and

make a photo copy of your answer, keep the photocopy and submit the original of your answer

at the beginning of the class.

(a) Although the National tax reform Act 1986 is the national level policy (which means

there are no regional variation of the tax structure), she could find the treatment group

and the control group. Explain what her treatment group and control group.

(b) High income married women received a huge tax cut and other group did not.

However, the tax rate is a function of income and the income itself is a function of the

tax rate. Thus, constructing the treatment group and the control group based on married

women's income is subject to endogeneity (see page 10 third paragraph). i.e. (You want to

examine the effect of tax rate. But construction of the control group and the treatment

group is a function of the tax rate, it is a big problem). To avoid the issue of the

endogeneity, she construct her control group and the treatment group in a wise way. How

did she construct her control group and the treatment group? Explain. (Hint: you need to

read the paper very carefully.)

(c) The author states "The identification condition is that there is no contemporaneous shock to the relative labor market outcomes of the treatment and control

groups", page 2. The author emphasize the word "relative". Explain what the author wanted

to say by explicitly more specifying the meaning of "the relative".

(d) Interpret Table IIIA.

- (e) Interpret Table IIIB.
- (f) On table IV, what is the author trying to show?
- (g) At the several points in the paper, the author mentioned the marginal tax rate for the first hour. What is it? Explain.
- (h) On table V, column (4), what is the author trying to say?