Distribution and Redistribution of Income
Independent Study (3 credits)
Graduate Course
ECON 7990-11 and ECON-7990-74
Spring 2015
Friday 11am-2pm
Location: 204 Tilton Hall

Instructor
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Office Hours: M 1:30-2:30 or by appointment.

Stata Tutorials: Rodrigo Aranda, raranda@tulane.edu.

Course Description
A sequel to ECON7990-11 and ECON7990-74, this course covers the quantitative analysis
of inequality and poverty measures; theories of income distribution; decomposition
methods; and, the theory and practice of fiscal incidence analysis. Students will learn
theories and methods, and apply them to a particular country.
Pre-requisites: Doctoral level Microeconomics, Macroeconomics, Econometrics and
either ECON7990-11 or ECON7990-74 .

Objective
The objective of the course is to train students in the quantitative analysis of inequality and
poverty.

Learning Outcomes
   i.   Understand and apply quantitative approaches to poverty and inequality measures
   ii.   Understand and apply theories of income distribution
   iii.   Identify proximate determinants of inequality and poverty through decomposition
       techniques
   iv.   Understand and apply fiscal incidence analysis
   v.   Produce a first draft of fiscal incidence analysis on a country of choice to be used as
       input for field paper and one dissertation essay.

Program Outcomes
This course contributes to the program outcomes for the Ph.D. degree in Economics by
allowing students to demonstrate competency in their field of concentration: inequality and
poverty analysis.

Readings
Books
- Atkinson, Anthony B. and Francois Bourguignon, eds. 2000. *Handbook of Income Distribution*. North Holland.
- Bourguignon, F., Ferreira, F. H., & Lustig, N. (Eds.). 2005. *The microeconomics of income distribution dynamics in East Asia and Latin America*. Oxford University Press, Washington, DC.

- Bourguignon, Francois, Francisco Ferreira and Nora Lustig. 2005. *The Microeconomics of Income Distribution Dynamics in East Asia and Latin America*, Oxford University Press, Washington, DC.
- Deaton, Angus, and John Muellbauer.1980. *Economics and Consumer behavior, Cambridge University Press. Chapter 2 presents basic duality theory.* Chapter 7 presents the basics of consumer surplus, compensating variations, etc.
- Duclos, Jean-Yves and Abdelkrim Araar. 2006. *Poverty and Equity: Measurement, Policy, and Estimation with DAD.* New York: Springer and International Development Research Centre.
- Gertler, Paul, and Jacques van der Gaag, 1990. *The Willingness to pay for medical care: Evidence from two developing countries.* Johns Hopkins University Press. (An application to health demand)
- Haughton, Jonathan and Shahidur R. Khandker. 2009. *Handbook on Poverty and Inequality,* World Bank. (available online)
- Lambert, Peter. 2001. *The Distribution and Redistribution of Income.* Third Edition. Manchester University Press.

Articles

- Chipman, John, and James Moore. 1980. *Compensating variation, consumer's surplus, and welfare.* American Economic Review, 70: 933-949.
- Dardanoni, Valentino and Peter Lambert. 2000. *Progressivity Comparisons.* Journal of Public Economics, 86 (2002): 99–122
- Engel, E. M., Galetovic, A., & Raddatz, C. E. 1999. *Taxes and income distribution in Chile: some unpleasant redistributive arithmetic.* Journal of Development Economics, 59(1): 155-192.
- Firpo, Sergio, Nicole M. Fortin, and Thomas Lemieux. 2011. *Decomposition Methods in Economics.* In Handbook of Labour Economics, D. Card and O. Ashenfelter (eds), Amsterdam: North Holland, 2–104.
- Fullerton, Don, and Gilbert E. Metcalf. 2002. *Tax incidence.* Handbook of public economics 4: 1787-1872.
- Fullerton, Don, and Holly Monti. 2013. *Can pollution tax rebates protect low-wage earners?.* Journal of Environmental Economics and Management 66.3: 539-553.
- Gertler, Paul, and Paul Glewwe. 1990. *The willingness to pay for education in developing countries: evidence from rural Peru.* Journal of Public Economics, 42: 251-275. (An application to education demand)
- Guillaume, Dominique M., Mohammad Reza Farzin, and Roman Zytek. 2011. *Iran: The chronicles of the subsidy reform.* International Monetary Fund.
- Hausman, Jerry. 1981. *Exact consumer's surplus and deadweight loss.* American Economic Review,71: 662-676.
- Lerman, R. I., & Yitzhaki, S. 1985. *Income inequality effects by income source: a new approach and applications to the United States.* The Review of Economics and Statistics: 151-156.
- Salehi-Isfahani, Djavad, B. Stucki, and Joshua Deutschmann. 2012. *The reform of energy subsidies in Iran: The role of cash transfers.* Working paper, Department of Economic, Virginia Tech.
- Salehi-Isfahani, Djavad. 2014. *Iran's Subsidy Reform: From Promise to Disappointment.* Policy Perspective. Economic Research Forum (ERF).
- Scott, John. 2012a. Fiscal Policy, Urban-Rural Inequality and Rural Poverty in Mexico. IFAD (International Fund for Agricultural Development) Report, Rome, Italy.

- Scott, John. 2013. *Redistributive Impact and Efficiency of Mexico's Fiscal System*, CEQ Working Paper No. 8.
- Shorrocks, A. F. 1982. *Inequality decomposition by factor components*. Econometrica: Journal of the Econometric Society, 193-211
- Small, Kenneth, and Harvey Rosen. 1981. *Applied welfare economics with discrete choice models*. Econometrica, 49: 105-130.
- Urzúa, C. 2012. *Fiscal inclusive development: Microsimulation models for Latin America*. IDRC, UNDP and ITSM.
- Vartia, Yrjo. 1983. *Efficient methods of measuring welfare change and compensated income in terms of ordinary demand functions*. Econometrica, 51: 79-98.
- Wang, C., Caminada, K., & Goudswaard, K. 2012. *The redistributive effect of social transfer programmes and taxes: A decomposition across countries*. International Social Security Review, 65(3): 27-48.

Organization
The course will be conducted as a seminar and there will be several in-class workshops and Stata tutorials. Careful and critical reading of the materials is a key component of this course. The class will consist of lectures and workshops, four Stata sessions and two in-class presentations.

Technology
You will need to look for data during class so please bring a laptop. Stata 13.

Evaluation and Grading
The evaluation is based on the **in-class presentations and participation (50 percent) and the fiscal incidence exercise (50 percent) due on TBD**.

Academic honesty
All students must be familiar with and abide by Tulane's Code of Academic Conduct, which is available online at http://tulane.edu/college/code.cfm

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Main Topics

- Prepare section on the decomposition methods and Shapley value to be included in the Handbook of CEQ.
- Preparing the draft of stand-alone paper on measuring the contribution of fiscal interventions. To be specific, account for dominance, level, path dependency, number of interventions, etc. The paper will also include the comparison between Shapley decomposition and other techniques such as Lerman-Yitzhaki, Firpo et al. (2011) and the Bourguignon, Ferreira and Lustig (2005). If time permits: incorporate Eduardo Engel's concern regarding Shapley value. Specifically, whether the axioms imbedded in the Shapley value are "acceptable" for the purposes of estimating the contribution of a fiscal intervention? The linearity axiom is the center of Engel's concern and also the fact that it seems possible for Shapley value to predict an equalizing effect for an intervention while removing it results in even less inequality.
- Completing sections A, B and C of MWB for Iran (Ali) and Mexico (Rodrigo). That is, complete the budgetary data, description of systems and methodology for constructing the various income concepts.

- (If time allows) Methodological approaches to incorporate behavioral responses to fiscal incidences.

Table1: Agenda

Meeting			Topics (lead discussant)	Relevant link(s)[1]	Last Modification Info
Date	Time	Location			
January 23	11-2pm				Jan-05-2015 by AE
January 30	11-2pm				Jan-05-2015 by AE
February 6	11-2pm				Jan-05-2015 by AE
February 13	11-2pm				Jan-05-2015 by AE
February 27	11-2pm				Jan-05-2015 by AE
March 6	11-2pm				Jan-05-2015 by AE
March 13	11-2pm				Jan-05-2015 by AE
April 17	11-2pm				Jan-05-2015 by AE
April 24	11-2pm				Jan-05-2015 by AE

[1] Please let the "owner" (Ali for now) know if any of the links doesn't work

Table2: Questions discussed in the meetings and relevant information

Question's title	Short description	Latest information	Last Modification Info