Graduate student term papers:

Their purpose, how to write them, and what to avoid

What is the purpose of writing term papers?

$\rightarrow$ to learn how to write your dissertation

Your dissertation will contain a

- description of your own research
- review of the literature relevant to your research

You need to convince your committee that

- your results are correct
- you know what your results mean and how they relate to the literature

$\rightarrow$ term papers provide the necessary practice

(1) You need to write your paper in the same style as published papers

- your audience are persons who have done graduate work in economics but do not know the literature as well as you do. Not laypersons!

- do not write an “executive summary.” If your paper reads like an article from *The Economist* then you are on the wrong track.

- Read John Cochrane’s excellent paper “Writing Tips for Ph.D. Students”

  http://faculty.chicagogsb.edu/john.cochrane/research/Papers/phd_paper_writing.pdf

  (The link is on the department website (Graduate program))

(1) You need to write your paper in the same style as published papers

"…develop a model so abstract as to be virtually inapplicable. However, admitted faults within a nascent extension of the game theory paradigm render neither the subsequent literature equally culpable nor the enterprise itself without merit."

Beautiful language, but not the style of Economics Journals

(1) You need to write your paper in the same style as published papers

"When analyzing the effects of removing taxes on capital income and increasing the wage tax, they explain that the elderly gain under this tax structure. However, the loss of welfare of younger generations more than offset these gains. They find the overall steady state welfare loss to be over 4 percent of total lifetime consumption and leisure (citation)."

Proofread your paper
before you show it to someone!

(1) You need to write your paper in the same style as published papers

"For the "second dividend," Ronnie Schob explains that there are two forms of it, a "weak" one and a "strong" one. The "weak" one is when the revenue from the environmental tax is returned as a lump-sum transfer to households'. The "strong" form is when the revenue is used

What trade-off?

taxes. He suggests in general we can not expect the "second dividend" in its "strong" form because there is a trade-off between the tax system and the environmental quality. However, in the absence of lump-sum transfers, the next best policy the government can follow is to compensate those who are affected by the dirty tax by subsidizing the clean goods that are substitutes of the dirty goods."

☺

Double-check that everything you write makes sense

(1) You need to write your paper in the same style as published papers

- your English must be understandable

  → it doesn't have to be flawless,
  but your text must be as grammatically correct as possible

- it is impossible to separate content from language
- ask a native speaker of English to proofread your paper
- speak English at home and with your friends as much as possible

(1) You need to write your paper in the same style as published papers

“4.2 A mode Which paper? **nure choice**

This paper emphasizes the externality that arises because tenants do not have incentive to take proper care of dwelling they occupy. This leads to agency costs in the form of more expensive agency costs in the form of more expensive maintenance or extra monitoring costs that will ultimately be paid by all renters Which cost? f higher rent. Therefore, cost is important source of tenure choice, if so, what about the welfare cost? Next paper examines welfare cost.”

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Ask a friend to read your paper!

(1) You need to write your paper in the same style as published papers

"1. Theory: Laffer Curve and New Version

Traditional public revenue theory tells us that high marginal tax rates cause an inefficiency that arises with the square of the tax rate. … If Laffer Curve is correct, high rates fail to raise any revenue. However, the empirical work has not been any more supportive since there is very little impact of changes in tax rates on labor supply for people, particularly for prime-age working men. This would also seem to indicate that Laffer curve is false."

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(2) Do not plagiarize!

to examine the evidence in support of the high-income Laffer curve. Using the same method as Feldstein did for 1980s, he found that the elasticities of taxable income calculated for other tax changes seem to be much more modest, with several indistinguishable from zero (Table 2). The largest regression estimates of taxable income elasticity from 1922-1980 are lower than the smallest estimates in the literature based on the 1980s (Table 3 and 4).

Goolsbee (2000) estimated the elasticity of taxable income with respect to marginal rates in a way that dose not suffer from some standard problems of the previous literature by using panel data on the levels and forms of compensation for several thousand corporate executives from 1991 to 1995. He distinguished temporary shifts in compensation from more permanent behavioral changes. The revenue implications of tax cuts hinge on whether changes in taxable income are made to the form of compensation or to the timing of compensation.

This study also showed that in this group of high-income people almost all of the estimated responsiveness of taxable wage and salary income to marginal rates from 1991 to 1995 was the result of shifts in the timing of compensation, not permanent shifts in the form of compensation.

The short-run elasticity of taxable income with respect to the net-of-tax share exceeds one, but taking out the temporary component yields long-run elasticity between zero and 0.4. The biggest short-run responses are concentrated among very rich executives and those who have stock options. There is virtually no response of taxable income when the exercise of stock options is excluded, and the disaggregated data verify that the vast majority of the changes in taxable income come from variations in the timing of optional exercises. Salary and bonus do not fall in response to changes in marginal rates, and while there is some evidence of an increase of an increase in nontaxable form, the magnitude is nowhere nearly large enough to explain the drop in taxable income from 1992 to 1993.

This result showed that the taxing the rich could lead to dramatic shifting of taxable income in the year immediately surrounding a tax change. Such changes may allow many to avoid taxation for a short period of time and may wreak havoc on contemporaneous revenue estimates. But after the shifting is done, the total changes in taxable income seem to be more limited and the deadweight loss

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of progressiveness more modest than previous work has suggested.

Eissa and Liebman (1996) examined the impact of TRA86 to compare the labor force participation and labor hours between the two group, single women with children and without children. They found that single women with children increase their relative labor force participation by up to 2.8 percentage points. They found no change in the relative hours worked by single women with children who were already in the labor force.

III. Discussion

1 The problem of rank reversal

Since there is a lack of panel data prior to 1980s, Lindsey estimated the elasticity of taxable income by assuming that there is no rank reversal within income distribution over time. However, several analysts have questioned whether people remain in the same relative income categories across time. Slemrod (1992, 1994, 1996) discussed the potential importance of temporary income and rank reversals for drawing conclusion about relative income changes. He found that the composition of high-income groups does have some significant turnover from year to year. Thus, the work of estimating true elasticity of taxable income with respect to net-of-tax share had turned to panel data.

2 The implication of magnitude in elasticity of taxable income and labor supply

The substantial sensitivity of taxable income to the net-of-tax share implies that lower marginal tax rates would involve much less revenue loss than is traditional assumed and would bring a much more substantial reduction in the deadweight loss of a tax system than is implied by calculations based on labor supply alone. The substantial sensitivity of married women's labor supply implies that the efficiency of the tax system could be increased significantly by reducing the marginal tax rates of these women relative to their husband's marginal tax rates.

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I. Introduction

In the last two decades, the responsiveness of taxpayers to changes in marginal tax rates has become perhaps the most central empirical issue in public finance. It is fundamental for evaluating the revenue effects of tax changes, the deadweight loss of taxation, and even the optimal size of government. It is also the centerpiece of the vehement and ongoing public debates about the tax policies of the 1980s and whether tax cuts can generate their own revenue.

Nowhere is the debate more heated than at the very high end of the income distribution. Income tax changes of the 1980s and 1990s, both increases and cuts, have been largest for the rich. Concerns about inefficiency have led some to condemn the tax increases of the 1990s and praise the cuts of the 1980s. Concerns about rising inequality have led others to do the reverse. At the center of the debate is the amount of deadweight loss created by a progressive tax code. The responsiveness of taxable income to marginal rates is exactly what determines that cost and, in principle, is a strictly empirical matter.

For no group, however, could it be harder to estimate such a parameter than for high-income people. There is little direct evidence on the rich and their money. Every major publicly available data source has at least one flaw that limits its capacity to identify the tax responsiveness of the rich. Top-coded income variables, small numbers of observations at the high end, a lack of panel data on the same individuals over time, or the limits of the information reported on a tax return are only some of the problems commonly encountered.

This paper revisits the debate over the tax response of high-income people by using extensive panel data on the levels and forms of compensation for several thousand corporate executives from 1991 to 1995. From these data I estimate the elasticity of taxable income with respect to marginal rates in a way that does not suffer from some of the standard problems of the previous literature. Further, by turning to these new data, I can distinguish temporary shifts in compensation from more permanent behavioral changes. This distinction is one of the most important in the literature (see Slemrod 1992). The revenue implications of tax cuts, for example, hinge on whether changes in taxable income are made to the form of compensation or to the timing of compensation.

The results in this sample suggest that the taxable income of the rich may be highly responsive in the short run to increases in marginal tax rates, verifying the work of Feldstein and Feenberg (1996)

VI. Conclusion

While there is substantial interest in the subject of how marginal tax rates affect taxable income, there is controversy over how rich people respond to taxes. Evidence from the 1980s may be subject to important biases. This paper has used detailed data on the compensation of several thousand corporate executives to reexamine the issue in the 1990s. It shows that in this group of high-income people, almost all of the estimated responsiveness of taxable wage and salary income to marginal rates from 1991 to 1995 was the result of shifts in the timing of compensation, in the spirit of Slemrod (1995), not permanent shifts in the form of compensation.

The short-run elasticity of taxable income with respect to the net-of-tax share exceeds one, but taking out the temporary component yields longer-run elasticities between zero and .4. The biggest short-run responses are concentrated among very rich executives and those who have stock options. There is virtually no response of taxable income when the exercise of stock options is excluded, and the disaggregated data verify that the vast majority of the changes in taxable income come from variations in the timing of option exercises. Salary and bonus do not fall in response to changes in marginal rates, and while there is some evidence of an increase in nontaxable forms of income, the magnitude is nowhere nearly large enough to explain the drop in taxable income from 1992 to 1993. The temporary shifts of this particular sample are important in their own right. These few thousand executives may account for as much as 21 percent of the aggregate decline in wage and salary income of almost the top one million taxpayers from 1992 to 1993.

The results show that using more detailed data on compensation can illuminate features of individual responses that are difficult to detect from tax return data. They also suggest that taxing the rich can lead to dramatic shifting of taxable income in the years immediately surrounding a tax change. Such changes may allow many to avoid taxation for a short period of time and may wreak havoc on contemporaneous revenue estimates. But after the shifting is done, the total changes in taxable income, at least in this sample, seem to be more limited and the deadweight loss of progressivity more modest than previous work has suggested.

References

Auerbach, Alan J. "Capital Gains Taxation in the United States: Realizations, Revenue, and Rhetoric." *Brookings Papers Econ. Activity*, no. 2 (1988), pp. 595–631.

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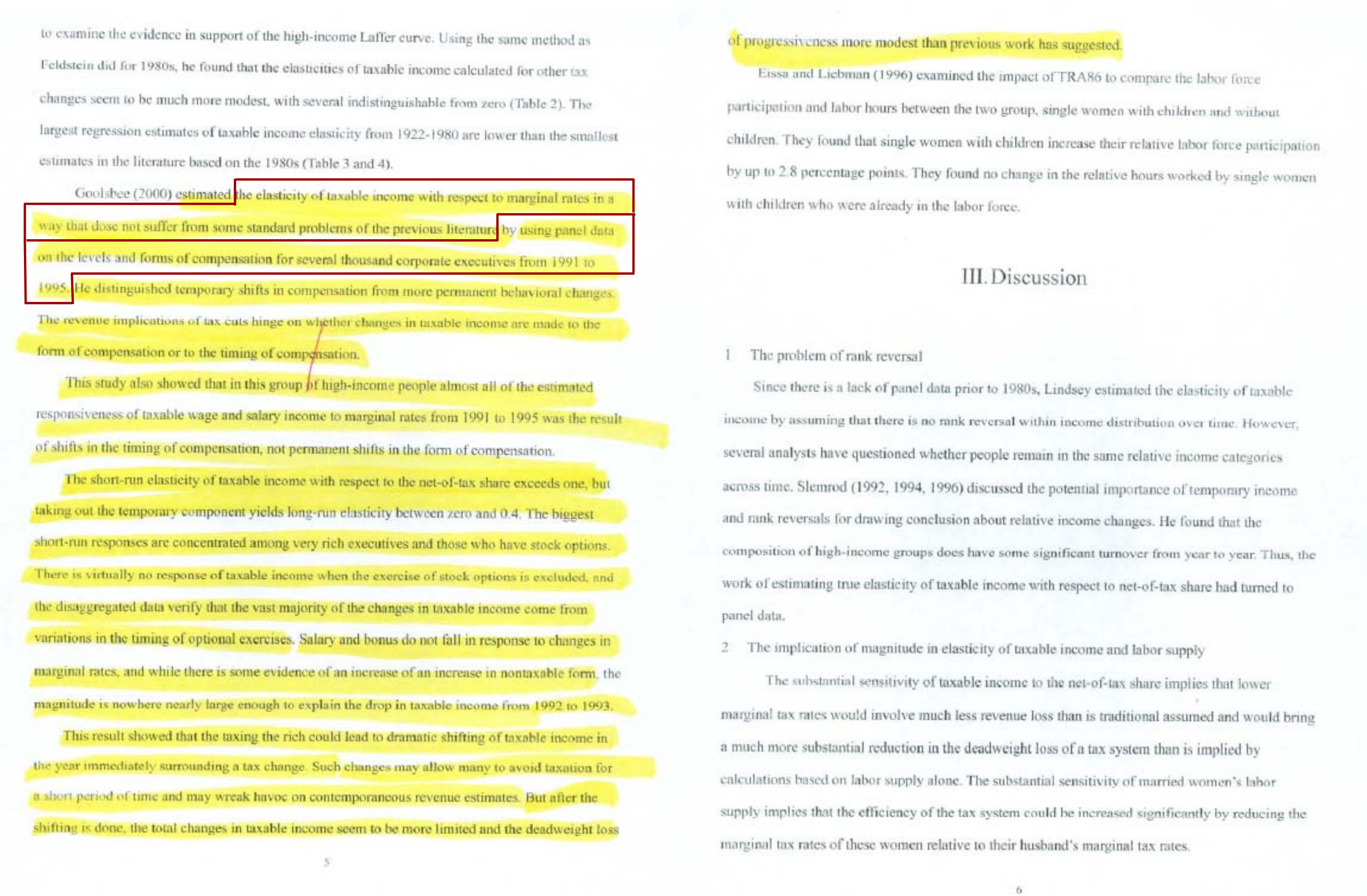

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Check the web (e.g. the resources at our own library at http://library.lib.binghamton.edu/instruct/plagiarism.html if you are not sure what constitutes plagiarism and what doesn’t)

(3) Do not paraphrase!

- The purpose of your paper is never to summarize a particular paper

- you refer to other papers either
  to <u>compare</u> them with each other (lit. review), or
  to <u>relate</u> them to your own work (research paper)

- if you find the need to paraphrase, then *most likely* you are not doing what you ought to be doing

- for the same reason: Do not quote!

(4) How to write a literature review?

- the purpose of a literature review is to provide readers who have done graduate work in economics with information about a topic

- be sure that you know what you want your reader to learn from your review

- include the essential papers in the literature, not just some random papers

- identify the relevant information in every paper and compare the papers with each other

(4) How to write a literature review?

- read some of the literature reviews in the
  - Journal of Economic Literature
  - Handbook of XXX-Economics series
- do not include irrelevant details

What is irrelevant?
That depends on what you want your reader to learn from your review

→ equations are often irrelevant
because you want to emphasize the essential differences and similarities of your papers

(5) How to write a research paper?

As your reader, I need to know

- what is the purpose of your research?
- why is this interesting?
- what are you doing?
- what is new?

Intro-
duction

- what exactly are you doing?
- what do you find?
- what does it mean?

Main
part

- what are the broader implications?

Conclusion

Before you start writing your paper, answer each question in a short paragraph

(5) How to write a research paper?

Writing good papers and giving good presentations are closely related

- go to as many seminars as possible
- if you get lost, ask yourself: why do I get lost
  - talk is not well motivated (who cares?)
  - talk is not well structured (where does this go?)
  - presenter speaks to fast, mumbles
  - presenter does not answer questions well
    - does he know what he is doing?
    - does he care if anyone can follow his presentation?

(5) How to write a research paper?

Writing good papers and giving good presentations are closely related

Remember that you need to give a
good job market seminar
to get a job offer in academics.