

ECON 87100 Labor Economics I

Assignment 1: Labour Supply and the EITC

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This assignment is intended to develop your familiarity with, and use of, the standard (static) theory of labour supply to evaluate the impacts of an important public policy supporting the low income population in the United States. The assignment has three parts, each due in the following three weeks.

You are required to submit a hardcopy of a memo at the beginning of class on February 15th for Part 1, February 22nd for Part 2, and March 1st for Part 3. Each answer should include a properly formatted bibliography of all sources used, which certainly should include articles and resources on the course reading list, but likely others, including web-based resources. In addition, each successive answer should incorporate previous answers, revised and improved in a way that reflect feedback from the instructor and your classmates. To be clear, this implies, for example, that the last submission of the assignment on March 1st will respond to the question in Part 3 as the concluding part in a three part essay of 10 to 20 pages in length.

You are free to work individually, in pairs or small groups, or even collectively, in developing your answers, and you are free to exchange resources with your classmates, but all assignments must be written and submitted individually, with appropriate acknowledgement of any help received.

1 Due February 15th at the beginning of class

The Internal Revenue Service website states that:

“The Earned Income Tax Credit, EITC or EIC, is a benefit for working people with low to moderate income. To qualify, you must meet certain requirements . . .” (<https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit>, accessed February 7th, 2018).

Describe the qualifying rules governing access to this benefit with care and attention to detail. Also describe the program’s nature and generosity, including a statement of excluded groups. Your answer should provide information not just on the scope of the program, but also its overall scale, including the overall program budget, number of recipients, and average benefit received as well the variation and duration of individual benefit payments. In developing your answer be certain to use original and authoritative sources.

If you wish to excel in this part of the assignment, your answer will offer more detail by addressing some or all of the following issues:

1. Describe the administration of the program, including the frequency and timing of benefits.
2. Describe the roles and responsibilities of the federal and state governments in administering the program, including any variations in the generosity of benefits between states.
3. Offer an historical overview of how program eligibility and generosity have changed, including a discussion of take-up rates among the eligible population.
4. Describe the benefit system the EITC replaced, paying particular attention to the stated goals of the new and old programs.

2 Due February 22nd at the beginning of class

1. Present an appropriate model to examine the labour market impacts of the program, making clear the predictions of the theory, and also clarifying the empirical information an analyst would need to evaluate these impacts.
2. Review the literature on the elasticity of labour supply—“What has been learned about labour supply . . . ?”—and defend consensus estimates, or range of estimates, appropriate for the evaluation of the labour supply impacts of the program.
3. Use these estimates to offer a “back of the envelope” evaluation of the program, or in the least describe how you would make such an evaluation and clarify what further information you might need.

3 Due March 1st at the beginning of class

Based upon your knowledge of the current scope and structure of the program, suggest and evaluate appropriate reforms intended to meet the overall program objectives, offering a sense of their budgetary implications, and labour supply impacts. Highlight any other impacts or possible unintended consequences, whether positive or negative, framing them in the context of more refined theoretical models.