**Problem Set: Spatial Taxation and Place-Based Policy**

**Overview**

Please amend the model in Kline Moretti 2014 to add high and low skill workers. You can use a Katz-Murphy model of the labor market. Please then calibrate the model (see e.g. specification in notes of figure 1; please make other plausible calibration choices using e.g., Rothstein’s calibration of low and high skill labor demand) and quantify the effects of a place-based subsidy of 10% for one location on the following outcomes by comparing equilibria before and after the subsidy:

* Share of high skilled workers in each location
* Share of low skilled workers in each location
* High and low skill wages in each location
* Tax revenue in each location
* Welfare for workers by type (high and low skill) and landlords

**Bonus: Comparative Statics**

How do these effects change if:

* one location is more productive than the other? And productivity is increasing in the share of high skill workers with a plausible agglomeration elasticity? Endogeous amenities?
* one location has inelastic housing supply?
* A subsidy of 25%?
* There is unemployment (see Bilal, 2020)?

**Relevant Literature:**

Kline, Pat, and Enrico Moretti, 2014, “People, Places, and Public Policy: Some Simple Welfare Economics of Local Economic Development Policies,” *Annual Review of Economics,* August, *629-662.*<http://www.annualreviews.org/doi/full/10.1146/annurev-economics-080213-041024>

Rothstein, Jesse 2010. “[Is the EITC as Good as an NIT? Conditional Cash Transfers and Tax Incidence](https://www.aeaweb.org/articles?id=10.1257/pol.2.1.177)” *AEJ: Economic Policy* 2(1): 177-208.

Fajgelbaum, Morales, Suárez Serrato, and Owen Zidar. 2019. “State Taxes and Spatial Misallocation.” *Review of Economic Studies*.

Moretti, Enrico.2011. “[Local Labor Markets](https://eml.berkeley.edu/~moretti/handbook.pdf).” In *Handbook of Labor Economics*, Vol. 4B, eds. Orley Ashenfelter and David Card, pp. 1237–1313, San Diego: Elsevier.

Diamond, Rebecca. 2016. “The Determinants and Welfare Implications of US Workers Diverging Location Choices by Skill: 1980-2000.” *American Economic Review* 106(3): 479-524.

Bilal, Adrien (2020) “[The Geography of Unemployment,”](https://sites.google.com/site/adrienbilal) working paper.