**Week 4 Problem Set: EITC Expansion**

**Overview**

This problem set will comprise of three components: (1) an analysis of the mechanical effects, (2) an analysis of the behavioral effects, and (3) an overall effect on tax revenue. See below for additional details.

**Data**

The micro-dataset for this analysis is from <http://gabriel-zucman.eu/usdina/> and can be downloaded here: <https://www.dropbox.com/s/9spftlusgce41cz/PSZ2017Dinafiles.zip?dl=0>

It has micro files for each year including projections up to 2020. Some key variables are hweal (net worth), dweght, hw\* (different wealth components), and fi\* (actual fiscal income variables).

The PSZ do files and parameters.csv are here <http://gabriel-zucman.eu/files/PSZ2017Programs.zip>

Kleven’s replication files may also be useful: <https://www.henrikkleven.com/papers.html>

**Mechanical Effects**

Assuming behavioral and tax avoidance are zero, how would expanding the EITC to a max of $5K for singles and a max of $10K married couples as well as expanding to qualifying non-parents (at the singles schedule) cost the federal government in terms of tax revenue? How many people would be affected directly

**Behavioral Effects**

How do will behavioral responses and labor force participation decisions affect these revenue estimates? What about effects on firm profits and low-income labor supply?

**Total Revenue Score**

What is the total fiscal cost of this plan?

**Relevant Literature:**

Kleven, Henrik, 2019. “The EITC and the extensive margin: a reappraisal,” working paper. <https://www.henrikkleven.com/uploads/3/7/3/1/37310663/kleven_eitc_sep2019.pdf>

Rothstein, Jesse, 2010, ["Is the EITC as Good as an NIT? Conditional Cash Transfers and Tax Incidence." American Economic Journal: Economic Policy 2 (1), February, p.p. 177-208](http://pubs.aeaweb.org/doi/pdfplus/10.1257/pol.2.1.177). <http://pubs.aeaweb.org/doi/pdfplus/10.1257/pol.2.1.177>

Bastian, Jacob, and Maggie Jones. 2019. “Does the EITC pay for itself? Effects on Tax Revenue and Public Assistance Spending,” Working paper. <http://jacobbastian.squarespace.com/research>