

University of California, Berkeley  
Department of Economics  
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## ECONOMICS 230A PUBLIC SECTOR MICROECONOMICS

This is the first of two courses in the Public Economics sequence. It will cover core material on taxation, public expenditures and public choice, and conclude with a consideration of the effects of capital income taxation on the behavior of households and firms. Economics 230B, the second semester in the sequence, will extend the discussion of optimal income taxation and consider more fully the behavioral effects of government policy and the institutional characteristics of important U.S. federal taxes and expenditure programs.

**Class meetings:** Tuesdays 9-11, 639 Evans Hall

**Office hours:** Mondays, 10:00-11:30, and by appointment

**Prerequisites:** This course should normally be taken after the completion of first-year Ph. D. courses in economic theory and econometrics.

**Requirements:**

Problem sets (2) -	30%
Paper (5 page review) -	20%
Final examination -	50%

There is no required textbook for this course. All starred readings below are required and are either included in the course reader or, where noted, available on the web. Non-starred material will be useful for further reading on topics of interest and preparation for the public economics field examination. The following texts and collections, selections from which appear on the reading list, are also useful for background reference:

A. Atkinson and J. Stiglitz, *Lectures on Public Economics*, McGraw-Hill (1980)

A. Auerbach and M. Feldstein, eds., *Handbook of Public Economics*, North-Holland, vol. 1 (1985), vol. 2 (1987), vol. 3 (2002) and vol. 4 (2002)

A. Auerbach, ed., *Public Finance*, Worth (1999)

## I. THEORY OF TAXATION AND PUBLIC EXPENDITURE

### A. Introduction

\*Atkinson and Stiglitz, *Lectures on Public Economics*, Lecture 11.

Alan Auerbach and Kevin Hassett, "A New Measure of Horizontal Equity," *American Economic Review*, September 2002, 1116-1125.

### B. Deadweight Loss and Optimal Tax Theory

\*Alan Auerbach and James Hines, "Taxation and Economic Efficiency," *Handbook of Public Economics*, vol. 3, Chapter 21; Sections 1-3.

### C. The Choice of Tax Base

\*Alan Auerbach, Laurence Kotlikoff and Jonathan Skinner, "The Efficiency Gains from Dynamic Tax Reform," *International Economic Review*, February 1983, 81-100; reprinted in Auerbach, ed., *Public Finance*. [www.jstor.org](http://www.jstor.org)

David Altig, Alan Auerbach, Laurence Kotlikoff, Kent Smetters and Jan Walliser, "Simulating Fundamental Tax Reform in the U.S.," *American Economic Review*, June 2001, 574-595.

### D. Tax Incidence

\*Don Fullerton and Gilbert Metcalf, "Tax Incidence," *Handbook of Public Economics*, vol. 4, Chapter 26.

Alan Auerbach and Laurence Kotlikoff, "The Methodology of Generational Accounting" in A. Auerbach, L. Kotlikoff and L. Liebfriz, eds., *Generational Accounting Around the World*, (U. of Chicago Press, 1999), 31-41.

Peter Mieszkowski and George Zodrow, "Taxation and the Tiebout Model," *Journal of Economic Literature*, September 1989, 1098-1146.

Timothy Besley and Harvey Rosen, "Sales Taxes and Prices: An Empirical Analysis," *National Tax Journal*, June 1999, 157-178.

### E. Provision for Public Goods, Externalities, and Imperfect Competition

\*Atkinson and Stiglitz, *Lectures on Public Economics*, 482-490.

\*Auerbach and Hines, "Taxation and Economic Efficiency," *Handbook of Public Economics*, vol. 3, Chapter 21; Sections 5 and 6.

Lans Bovenberg and Lawrence Goulder, "Environmental Taxation," *Handbook of Public Economics*, vol. 3, Chapter 23.

## II. PUBLIC CHOICE

### A. Voting

\*Atkinson and Stiglitz, *Lectures on Public Economics*, 299-310 and 507-512.

Torsten Persson and Guido Tabellini, "Political Economics and Public Finance," *Handbook of Public Economics*, vol. 3, Chapter 24.

Nicolaus Tideman and Gordon Tullock, "A New and Superior Process for Making Social Choices," *Journal of Political Economy*, December 1976, 1145-1159; reprinted in Auerbach, ed., *Public Finance*.

### B. Federalism and the Tiebout Model

\*Daniel Rubinfeld, "The Economics of the Local Public Sector," *Handbook of Public Economics*, vol. 2, Chapter 11; Sections 1-3.

\*Roger Gordon, "An Optimal Taxation Approach to Fiscal Federalism," *Quarterly Journal of Economics*, November 1983, 567-586. [www.jstor.org](http://www.jstor.org)

Suzanne Scotchmer, "Local Public Goods and Clubs," *Handbook of Public Economics*, vol. 4, Chapter 29.

### C. Tax Competition

\*Martin Feldstein and David Hartman, "The Optimal Taxation of Foreign-Source Investment," *Quarterly Journal of Economics*, November 1979, 613-629.  
([www.jstor.org](http://www.jstor.org))

\*Roger Gordon, "Can Capital Income Taxes Survive in Open Economies?" *Journal of Finance*, July 1992, 1159-1180. [www.jstor.org](http://www.jstor.org)

\*John Wilson, "Theories of Tax Competition," *National Tax Journal*, June 1999, 269-304.  
[ntj.tax.org](http://ntj.tax.org)

Eckhard Janeba and Michael Smart, "Is Targeted Tax Competition Less Harmful than its Remedies?" *International Tax and Public Finance*, May 2003, 259-280.

Torsten Persson and Guido Tabellini, "Federal Fiscal Constitutions: Risk Sharing and Redistribution," *Journal of Political Economy*, October 1996, 979-1009.

### III. CAPITAL INCOME TAXATION

#### *A. Household Behavior*

\*James Poterba, "Taxation, Risk-Taking, and Household Portfolio Behavior" *Handbook of Public Economics*, vol. 3, Chapter 17.

\*Alan Auerbach and David Bradford "Generalized Cash-Flow Taxation," *Journal of Public Economics*, 2003, in press. [www.sciencedirect.com](http://www.sciencedirect.com)

Leonard Burman and William Randolph, "Measuring Permanent Responses to Capital-Gains Tax Changes in Panel Data," *American Economic Review*, September 1994, 794-809; reprinted in Auerbach, ed., *Public Finance*.

Alan Auerbach and Jonathan Siegel, "Capital Gains Realizations of the Rich and Sophisticated," *American Economic Review*, May 2000, 276-282.

#### *B. Corporate Financial Structure*

\*Alan Auerbach, "Taxation and Corporate Financial Policy," *Handbook of Public Economics* vol. 3, Chapter 19.

Alan Auerbach and Mervyn King, "Taxation, Portfolio Choice, and Debt-Equity Ratios: A General Equilibrium Model," *Quarterly Journal of Economics*, November 1983, 587-609.

Alan Auerbach and David Reishus, "The Effects of Taxation on the Merger Decision," in A. Auerbach, ed., *Corporate Takeovers* (U. of Chicago Press, 1988), 157-183.

Alan Auerbach and Kevin Hassett, "On the Marginal Source of Investment Funds," *Journal of Public Economics*, January 2003, 205-232.

#### *C. Investment Behavior*

\*Alan Auerbach, "Tax Reform and Adjustment Costs: The Impact on Investment and Market Value," *International Economic Review*, November 1989, 939-962. [www.jstor.org](http://www.jstor.org)

\*Kevin Hassett and Glenn Hubbard, "Tax Policy and Business Investment," *Handbook of Public Economics*, vol. 3, Chapter 20.

Bronwyn Hall and John Van Reenan, "How Effective are Fiscal Incentives for R&D?" *Research Policy*, April 2000, 449-470.

Roger Gordon and James Hines, "International Taxation," *Handbook of Public Economics*, vol. 4, Chapter 28.