

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. Economics 230B, the second semester in the sequence, will 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 Structure of the Income Tax

* Auerbach and Hines, Section 4.

* Joel Slemrod et al, "The Optimal Two-Bracket Linear Income Tax," *Journal of Public Economics*, February 1994, 269-90. www.sciencedirect.com

Peter Diamond, "Optimal Income Taxation: An Example with a U-Shaped Pattern of Optimal Marginal Tax Rates," *American Economic Review*, March 1998, 83-95.

Emmanuel Saez, "Using Elasticities to Derive Optimal Income Tax Rates", *Review of Economic Studies*, January 2001, 205-229.

D. Dynamic Tax Issues

* Auerbach and Hines, Section 7.

* Douglas Bernheim, "Taxation and Saving," *Handbook of Public Economics*, vol. 3, Chapter 18; Sections 2-3.

* 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

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.

Emmanuel Saez, "Optimal Capital Income Taxes in the Infinite Horizon Model", NBER Working Paper, No. 9046, July 2002.

Mikhail Golosov, Narayana Kocherlakota, and Aleh Tsyvinski, "Optimal Indirect and Capital Taxation," *Review of Economic Studies*, July 2003, 569-87

E. 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.

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

F. 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

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

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
 - * Roger Gordon, "Can Capital Income Taxes Survive in Open Economies?" *Journal of Inance*, July 1992, 1159-1180. **www.jstor.org**
 - * John Wilson, "Theories of Tax Competition," *National Tax Journal*, June 1999, 269-304.
ntj.tax.org
- 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. Savings, Portfolio Choice, and Tax-Sheltered Saving

- * Douglas Bernheim, "Taxation and Saving," *Handbook of Public Economics*, vol. 3, Chapter 18; Sections 4-5.
 - * James Poterba, "Taxation, Risk-Taking and Household Portfolio Behavior," *Handbook of Public Economics*, vol. 3, Chapter 17.
- E. Engen, W. Gale, and J. Scholz, "The Illusory Effects of Saving Incentives," *Journal of Economic Perspectives*, Fall 1996, 113-138.
- J. Poterba, S. Venti, and D. Wise, "How Retirement Saving Programs Increase Saving," *Journal of Economic Perspectives*, Fall 1996, 91-112.

B. Capital Gains Taxation

- * 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*. **www.jstor.org**
 - * Alan Auerbach and Jonathan Siegel, "Capital Gains Realizations of the Rich and Sophisticated," *American Economic Review*, May 2000, 276-82. **www.jstor.org**
 - * Alan Auerbach and David Bradford "Generalized Cash-Flow Taxation," *Journal of Public Economics*, April 2004. **www.sciencedirect.com**
- Joseph Stiglitz, "Some Aspects of the Taxation of Capital Gains," *Journal of Public Economics*, July 1983, 257-94.