

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 begin by covering core material on public choice and taxation and some recent applications and then move on to consider capital income taxation, its effects on the behavior of households and in the international context. Economics 230B, the second semester in the sequence, will consider more fully the general optimal income tax problem, the effects of taxation on the behavior of firms, and the institutional characteristics of important taxes and social insurance programs.

**Class meetings:** Tuesdays 9-11, 639 Evans Hall, Sep. 1- Dec. 1

**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. Students with other backgrounds should consult the instructor.

<b>Requirements:</b>	Problem sets (2)	30%
	Paper (app. 5 page review, due December 11)	20%
	Final examination	50%

Lecture notes will generally be posted on the course web site prior to each class providing an outline of points to be discussed, derivations of detailed results, and other review materials. There is no textbook for this course. Readings given below are accessible from within the UC Berkeley IP domain. Starred readings should be considered more important. Several readings are from the following collection, which is also a useful background reference:

Alan Auerbach and Martin Feldstein, eds., *Handbook of Public Economics*, Elsevier, volumes 3 (2002) and 4 (2002)

Alan Auerbach, Raj Chetty, Martin Feldstein, and Emmanuel Saez, eds., *Handbook of Public Economics*, Elsevier, volume 5 (2013)

Other recent texts and collections you may find helpful for their coverage of particular topics are:

Bernard Salanié, *The Economics of Taxation*, 2<sup>nd</sup> ed., MIT Press (2011)  
(A concise treatment of selected topics in the theory of taxation)

Louis Kaplow, *The Theory of Taxation and Public Economics*, Princeton U. Press (2008)  
(A less technical, intuitive discussion of the theory of taxation and public expenditure)

James Mirrlees *et al.*, eds., *Dimensions of Tax Design: The Mirrlees Review*, Oxford University Press (2010) <http://www.ifs.org.uk/mirrleesReview/dimensions>  
(A recent collection of useful surveys motivated by a consideration of UK tax design)

## **Course Outline and Syllabus**

### **0. PUBLIC FINANCE AND THE ROLE OF GOVERNMENT**

#### **I. PUBLIC CHOICE**

##### **A. Overview**

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

<http://www.sciencedirect.com/science/article/pii/S1573442002800283>

##### **B. Voting, Agency, and Budget Rules**

James Poterba, "State Responses to Fiscal Crisis: The Effects of Budgetary Institutions and Politics," *Journal of Political Economy*, August 1994, 799-821.

<http://www.jstor.org/stable/pdfplus/2138765.pdf>

Timothy Besley and Stephen Coate, "Centralized versus Decentralized Provision of Local Public Goods: A Political Economy Approach," *Journal of Public Economics*, December 2003, 2589-2637.

<http://www.sciencedirect.com/science/article/pii/S004727270200141X>

Alan Auerbach, "Budget Windows, Sunsets, and Fiscal Control," *Journal of Public Economics*, January 2006, 87-100.

<http://www.sciencedirect.com/science/article/pii/S0047272705000423>

Timothy Besley and Michael Smart, "Fiscal Restraints and Voter Welfare," *Journal of Public Economics*, April 2007, 755-773.

<http://www.sciencedirect.com/science/article/pii/S0047272706001356>

#### **II. THEORY OF TAXATION**

##### **A. 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.

<http://www.sciencedirect.com/science/article/pii/S1573442002800258>

Martin Feldstein, "Tax Avoidance and the Deadweight Loss of the Income Tax," *Review of Economics and Statistics*, November 1999, 674-680.

<http://www.mitpressjournals.org/doi/pdf/10.1162/003465399558391>

Alberto Alesina, Andrea Ichino, and Loukas Karabarbounis, "Gender Based Taxation and the Division of Family Chores," *American Economic Journal: Economic Policy*, May 2011, 1-40. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/pol.3.2.1>

Liran Einav, Dan Koenig, Jonathan Levin, and Neel Sundaresan, "Sales Taxes and Internet Commerce," *American Economic Review*, January 2014, 1-26.  
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.104.1.1>

### **B. Tax Incidence**

- \* Don Fullerton and Gilbert Metcalf, "Tax Incidence," *Handbook of Public Economics*, vol. 4, Chapter 26; Sections 1-2.  
<http://www.sciencedirect.com/science/article/pii/S1573442002800052>

Jonathan Gruber and Botond Koszegi, "Tax Incidence When Individuals are Time-Inconsistent: The Case of Cigarette Excise Taxes," *Journal of Public Economics*, August 2004, 1959-1987. <http://www.sciencedirect.com/science/article/pii/S004727270300077X>

Raj Chetty, "The Simple Economics of Salience and Taxation," NBER Working Paper No. 15246, August 2009. <http://www.nber.org/papers/w15246.pdf>

John Cawley and David Frisvold, "The Incidence of Taxes on Sugar-Sweetened Beverages: the Case of Berkeley, California," NBER Working Paper 21465, August 2015. <http://www.nber.org/papers/w21465.pdf>

- \* Alan Auerbach, "Who Bears the Corporate Tax? A Review of What We Know" in J. Poterba, ed., *Tax Policy and the Economy* 20, 2006, 1-40.  
<http://www.nber.org/chapters/c0065.pdf>

### **C. Public Goods, Externalities, and the Marginal Cost of Public Funds**

- \* Lans Bovenberg and Lawrence Goulder, "Environmental Taxation and Regulation," *Handbook of Public Economics*, vol. 3, Chapter 23; Section 4.  
<http://www.sciencedirect.com/science/article/pii/S1573442002800271>
- \* Auerbach and Hines, "Taxation and Economic Efficiency," *Handbook of Public Economics*, vol. 3, Chapter 21; Sections 5 and 6.
- \* Fullerton and Metcalf, "Tax Incidence," *Handbook of Public Economics*, vol. 4, Chapter 26; Section 3.

Nathaniel Hendren, "The Policy Elasticity," NBER Working Paper No. 19177, June 2013. <http://www.nber.org/papers/w19177.pdf>

Agnar Sandmo, "Global Public Economics: Public Goods and Externalities," *Économie Publique*, 2006 (1-2), 3-21. <http://economiepublique.revues.org/4282?file=1>

### **D. Dynamic Taxation**

- \* Auerbach and Hines, "Taxation and Economic Efficiency," *Handbook of Public Economics*, vol. 3, Chapter 21; Section 7.
- \* Fullerton and Metcalf, "Tax Incidence," *Handbook of Public Economics*, vol. 4, Chapter 26; Sections 4-5.

- \* 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. <http://www.jstor.org/stable/pdfplus/2677880.pdf>
  - \* Alan Auerbach, “The Choice between Income and Consumption Taxes: A Primer,” in A. Auerbach and D. Shaviro, eds., *Institutional Foundations of Public Finance: Economic and Legal Perspectives*, Harvard University Press (2008), Chapter 2, 13-46. <http://www.nber.org/papers/w12307.pdf>
- Andrés Erosa and Martin Gervais, “Optimal Taxation in Life-Cycle Economies,” *Journal of Economic Theory*, August 2002, 338-369. <http://www.sciencedirect.com/science/article/pii/S0022053101928777>
- Juan Carlos Conesa, Sagiri Kitao, and Dirk Krueger, 2009, “Taxing Capital? Not a Bad Idea after All!” *American Economic Review*, March 2009, 25-48. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.99.1.25>

### III. SAVING, PORTFOLIO CHOICE AND CAPITAL INCOME TAXATION

#### A. Overview

- \* James Poterba, “Taxation, Risk-Taking, and Household Portfolio Behavior” *Handbook of Public Economics*, vol. 3, Chapter 17. <http://www.sciencedirect.com/science/article/pii/S1573442002800210>

#### B. Portfolio Choice

Laura Kawano, “The Dividend Clientele Hypothesis: Evidence from the 2003 Act,” *American Economic Journal: Economic Policy*, February 2014, 114-136. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/pol.6.1.114>

#### C. Tax-Favored Saving

- \* Raj Chetty, John Friedman, Søren Leth-Petersen, Torben Heien Nielsen, and Tore Olsen, “Active vs. Passive Decisions and Crowd-Out in Retirement Savings Accounts: Evidence from Denmark,” *Quarterly Journal of Economics*, August 2014, 1141-1219. <http://qje.oxfordjournals.org/content/129/3/1141.full.pdf+html>

Gabriel Carroll, James Choi, David Labison, Brigitte Madrian, and Andrew Metrick, “Optimal Defaults and Active Decisions,” *Quarterly Journal of Economics*, November 2009, 1639-1674. <http://qje.oxfordjournals.org/content/124/4/1639.full.pdf+html>

#### D. Capital Gains Taxation

- \* Tim Dowd, Robert McClelland, and Athiphat Muthitacharoen, “New Evidence on the Tax Elasticity of Capital Gains,” *National Tax Journal*, September 2015, 511-544. <http://dx.doi.org/10.17310/ntj.2015.3.02>

Zoran Ivković, James Poterba, and Scott Weisbenner, “Tax-Motivated Trading by Individual Investors,” *American Economic Review*, December 2005, 1605-1630.  
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/000282805775014461>

Alan Auerbach and David Bradford “Generalized Cash-Flow Taxation,” *Journal of Public Economics*, April 2004, 957-980.  
<http://www.sciencedirect.com/science/article/pii/S0047272703000446>

### **E. Estate Taxation**

- \* Wojciech Kopczuk, “Taxation of Intergenerational Transfers and Wealth,” *Handbook of Public Economics*, vol. 5, Chapter 6.  
<http://www.sciencedirect.com/science/article/pii/B9780444537591000066>

Wojciech Kopczuk, “Incentive Effects of Inheritances and Optimal Estate Taxation,” *American Economic Review*, May 2013, 472-477.  
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.103.3.472>

Thomas Piketty and Emmanuel Saez, “A Theory of Optimal Inheritance Taxation,” *Econometrica*, September 2013, 1851-1886.  
<http://onlinelibrary.wiley.com/doi/10.3982/ECTA10712/pdf>

## **IV. INTERNATIONAL AND MULTIJURISDICTIONAL TAXATION**

### **A. Introduction**

- \* Roger Gordon and James Hines, “International Taxation,” *Handbook of Public Economics*, vol. 4, Chapter 28.  
<http://www.sciencedirect.com/science/article/pii/S1573442002800076>

Dhammika Dharmapala, Fritz Foley, and Kristin Forbes, “Watch What I Do, Not What I Say: The Unintended Consequences of the Homeland Investment Act,” *Journal of Finance*, June 2011, 753–787. <http://onlinelibrary.wiley.com/doi/10.1111/j.1540-6261.2011.01651.x/pdf>

Dhammika Dharmapala and Nadine Riedel, “Earnings Shocks and Tax-Motivated Income-Shifting: Evidence from European Multinationals,” *Journal of Public Economics*, January 2013, 95-107.  
<http://www.sciencedirect.com/science/article/pii/S0047272712000916>

### **B. Tax Competition**

- \* Michael Keen and Kai Konrad, “The Theory of International Tax Competition and Coordination,” *Handbook of Public Economics*, vol. 5, Chapter 5.  
<http://www.sciencedirect.com/science/article/pii/B9780444537591000054>

Alan Auerbach, Michael Devereux, and Helen Simpson, “Taxing Corporate Income,” in J. Mirrlees et al., eds., *Dimensions of Tax Design*, 2010, 837–893.  
<http://www.ifs.org.uk/uploads/mirrleesreview/dimensions/ch9.pdf>