

University of California, Berkeley
Department of Economics
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Professor Alan Auerbach
525 Evans Hall; 3-0711
auerbach@econ.berkeley.edu

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 then consider capital income taxation and its effects on the behavior of households and firms, local public finance and international taxation. Economics 230B, the second semester in the sequence, will consider more fully the general optimal income tax problem, institutional characteristics of important taxes, taxpayer responses to them and their enforcement, social insurance, and the distribution of income and wealth.

Class meetings: Tuesdays 9-11, 639 Evans Hall, Aug. 28 - Nov. 27

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.

Requirements:

Problem sets (2)	30%
Paper (app. 5 page review of two papers, due December 7)	20%
Final examination (December 11, 3-6 pm)	50%

Lecture notes will be posted prior to each class providing an outline of points to be discussed, derivations of detailed results, and other review materials. Readings below are accessible from within the UC Berkeley IP domain.

Some 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*, 2nd 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 collection of useful surveys motivated by a consideration of UK tax design)

I. PUBLIC FINANCE AND THE ROLE OF GOVERNMENT

A. Introduction

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

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/00028280260344650>

Matthew Weinzierl, "The Promise of Positive Optimal Taxation: Normative Diversity and a Role for Equal Sacrifice," *Journal of Public Economics*, October 2014, 128-142.

<http://www.sciencedirect.com/science/article/pii/S0047272714001522>

Emmanuel Saez and Stefanie Stantcheva, "Generalized Social Marginal Welfare Weights for Optimal Tax Theory," *American Economic Review*, January 2016, 24-45.

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20141362>

Nathaniel Hendren, "Efficient Welfare Weights," NBER Working Paper 20351, Revised October 2017. <http://www.nber.org/papers/w20351.pdf>

B. Dealing with Externalities

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>

Hunt Allcott and Dmitry Taubinsky, "Evaluating Behaviorally Motivated Policy: Experimental Evidence from the Lightbulb Market," *American Economic Review*, August 2015, 2501-38. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20131564>

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

II. 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

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>

Jeffrey Clemens and Stephen Miran, "Fiscal Policy Multipliers on Subnational Government Spending," *American Economic Journal: Economic Policy*, May 2012, 46-68. <https://www.aeaweb.org/articles/pdf/doi/10.1257/pol.4.2.46>

C. *Property Taxes, the Tiebout Model and Education Finance*

Eric Hanushek, "Publicly Provided Education," *Handbook of Public Economics*, vol. 4, Chapter 30, Section 7.

<http://www.sciencedirect.com/science/article/pii/S157344200280009X>

Stephen Calabrese, Dennis Epple, and Richard Romano, "Inefficiencies from Metropolitan Political and Fiscal Decentralization: Failures of Tiebout Competition," *Review of Economic Studies*, July 2012, 1081-1111. <https://doi.org/10.1093/restud/rdr048>

III. 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, 5-6.

<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>

Liran Einav, Dan Knoepfle, 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>

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>

B. *Tax Incidence*

Don Fullerton and Gilbert Metcalf, "Tax Incidence," *Handbook of Public Economics*, vol. 4, Chapter 26, Sections 1-3.

<http://www.sciencedirect.com/science/article/pii/S1573442002800052>

John Cawley and David Frisvold, "The Incidence of Taxes on Sugar-Sweetened Beverages: The Case of Berkeley, California," *Journal of Policy Analysis and Management*, Spring 2017, 303-326.

<http://onlinelibrary.wiley.com/doi/10.1002/pam.21960/epdf>

Youssef Benzarti and Dorian Carloni, "Who Really Benefits from Consumption Tax Cuts? Evidence from a Large VAT Reform in France," *American Economic Journal: Economic Policy*, forthcoming. <https://assets.aeaweb.org/assets/production/files/7311.pdf>

Emmanuel Saez, Manos Matsaganis, and Panos Tsakloglou, “Earnings Determination and Taxes: Evidence From a Cohort-Based Payroll Tax Reform in Greece,” *Quarterly Journal of Economics*, February 2012, 493-533. <https://doi.org/10.1093/qje/qjr052>

Juan Carlos Suárez Serrato and Owen Zidar, “Who Benefits from State Corporate Tax Cuts? A Local Labor Markets Approach with Heterogeneous Firms,” *American Economic Review*, September 2016, 2582-2624. <https://www.aeaweb.org/articles?id=10.1257/aer.20141702>

C. *Efficiency and Incidence in a Dynamic Setting*

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.

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>

Alan Auerbach, Laurence Kotlikoff, and Darryl Koehler, “U.S. Inequality, Fiscal Progressivity, and Work Disincentives: An Intragenerational Accounting” NBER Working Paper 22032, February 2016. <http://www.nber.org/papers/w22032>

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. <https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.91.3.574>

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>

IV. SAVING, PORTFOLIO CHOICE AND CAPITAL INCOME TAXATION

A. *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>

B. 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. <https://doi.org/10.1093/qje/qju013>

Gabriel Carroll, James Choi, David Labison, Brigitte Madrian, and Andrew Metrick, "Optimal Defaults and Active Decisions," *Quarterly Journal of Economics*, November 2009, 1639-1674. <https://doi.org/10.1162/qjec.2009.124.4.1639>

C. 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>

V. CORPORATE TAXATION, FINANCE AND INVESTMENT**A. Corporate Financial Policy**

Alan Auerbach, "Taxation and Corporate Financial Policy," *Handbook of Public Economics*, vol. 3, Chapter 19. <http://www.sciencedirect.com/science/article/pii/S1573442002800234>

Alan Auerbach and Kevin Hassett, "On the Marginal Source of Investment Funds," *Journal of Public Economics*, January 2003, 205-232. <http://www.sciencedirect.com/science/article/pii/S0047272701001724>

Raj Chetty and Emmanuel Saez, "Dividend Taxes and Corporate Behavior: Evidence from the 2003 Dividend Tax Cut," *Quarterly Journal of Economics*, August 2005, 791-833. <https://doi.org/10.1093/qje/120.3.791>

Eric Ohn, "The Effect of Corporate Taxation on Investment and Financial Policy: Evidence from the DPAD," *American Economic Journal: Economic Policy*, May 2018, 272-301. <https://doi.org/10.1257/pol.20150378>

B. Investment Behavior

Christopher House and Matthew Shapiro, "Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation," *American Economic Review*, June 2008, 737-768. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.98.3.737>

Danny Yagan, “Capital Tax Reform and the Real Economy: The Effects of the 2003 Dividend Tax Cut,” *American Economic Review*, December 2015, 3531-3563.
<http://dx.doi.org/10.1257/aer.20130098>

Eric Zwick and James Mahon, “Tax Policy and Heterogeneous Investment Behavior,” *American Economic Review*, January 2017, 217-248.
<https://doi.org/10.1257/aer.20140855>

Nick Bloom, Rachel Griffith, and John Van Reenen, “Do R&D Tax Credits Work? Evidence from a Panel of Countries 1979-1997,” *Journal of Public Economics*, July 2002, 1-31. <http://www.sciencedirect.com/science/article/pii/S004727270100086X>

C. Tax Competition and International Taxation

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>

Alan Auerbach, “Demystifying the Destination-Based Cash-Flow Tax,” *Brookings Papers on Economic Activity*, Fall 2017, 409-432. <https://www.brookings.edu/wp-content/uploads/2018/02/auerbachtextfa17bpea.pdf>

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>

Fabian Gaessler, Bronwyn H. Hall, Dietmar Harhoff, “Should There be Lower Taxes on Patent Income?” NBER Working Paper 24843, July 2018.
<http://www.nber.org/papers/w24843>

Joshua Rauh and Xavier Giroud, “State Taxation and the Reallocation of Business Activity: Evidence from Establishment-Level Data,” *Journal of Political Economy* (forthcoming) https://web.stanford.edu/~rauh/research/GR_Final.pdf