

ECONOMICS 230A
PUBLIC SECTOR MICROECONOMICS
(Part 1)

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 (or remotely via the UCB library proxy).

I. PUBLIC FINANCE AND THE ROLE OF GOVERNMENT

Alan Auerbach and Kevin Hassett, “A New Measure of Horizontal Equity,” *American Economic Review*, September 2002, 1116-1125. doi.org/10.1257/00028280260344650

Emmanuel Saez and Stefanie Stantcheva, “Generalized Social Marginal Welfare Weights for Optimal Tax Theory,” *American Economic Review*, January 2016, 24-45.
doi.org/10.1257/aer.20141362

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://doi.org/10.1016/j.jpubeco.2014.06.012>

Nathaniel Hendren, “Measuring Economic Efficiency Using Inverse-Optimum Weights,” *Journal of Public Economics*, July 2020. doi.org/10.1016/j.jpubeco.2020.104198

II. THEORY OF TAXATION

A. Deadweight Loss and Optimal Taxation

Alan Auerbach and James Hines, “Taxation and Economic Efficiency,” *Handbook of Public Economics*, vol. 3, Chapter 21; Sections 1-3, 5-6. [doi.org/10.1016/S1573-4420\(02\)80025-8](https://doi.org/10.1016/S1573-4420(02)80025-8)

Martin Feldstein, “Tax Avoidance and the Deadweight Loss of the Income Tax,” *Review of Economics and Statistics*, November 1999, 674-680.
doi.org/10.1162/003465399558391

Henrik Kleven, “Sufficient Statistics Revisited,” NBER Working Paper 27242, May 2020. www.nber.org/papers/w27242

Liran Einav, Dan Koenig, Jonathan Levin, and Neel Sundaresan, “Sales Taxes and Internet Commerce,” *American Economic Review*, January 2014, 1-26.
doi.org/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 1-3. [doi.org/10.1016/S1573-4420\(02\)80005-2](https://doi.org/10.1016/S1573-4420(02)80005-2)

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. [doi/10.1002/pam.21960/epdf](https://doi.org/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*, February 2019, 38-63. doi.org/10.1257/pol.20170504

Emmanuel Saez, Benjamin Schoefer, and David Seim, "Payroll Taxes, Firm Behavior, and Rent Sharing: Evidence from a Young Workers' Tax Cut in Sweden," *American Economic Review*, May 2019, 1717-1763. doi.org/10.1257/aer.20171937

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. doi.org/10.1257/aer.20141702

Clemens Fuest, Andreas Peichl, and Sebastian Siegloch, "Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany," *American Economic Review*, February 2018, 393-418. <https://www.aeaweb.org/articles/pdf/doi/10.1257/aer.20130570>

Scott Baker, Stephen Teng Sun, and Constantine Yannelis, "Corporate Taxes and Retail Prices," NBER Working Paper 27058, April 2020. www.nber.org/papers/w27058

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.

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>

Alan Auerbach, Laurence Kotlikoff, and Darryl Koehler, "U.S. Inequality and Fiscal Progressivity: An Intragenerational Accounting" August 2019. [eml.berkeley.edu/~auerbach/U.S. Inequality and Fiscal Progressivity 8 29 19.1.pdf](https://eml.berkeley.edu/~auerbach/U.S.%20Inequality%20and%20Fiscal%20Progressivity%208%2029%2019.1.pdf)

Stefanie Stantcheva, "Dynamic Taxation," *Annual Review of Economics*, 2020, 801-31. <https://doi.org/10.1146/annurev-economics-100119-013035>

III. RESPONSES TO 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. *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>

Owen Zidar and Ole Agersnap, “The Tax Elasticity of Capital Gains and Revenue-Maximizing Rates,” *American Economic Review: Insights* (forthcoming)

<https://www.aeaweb.org/content/file?id=13931>

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>

C. *Investment Behavior*

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.

<http://doi.org/10.1257/aer.20140855>

Daniel G. Garrett, Eric Ohrn, and Juan Carlos Suárez Serrato, “Tax Policy and Local Labor Market Behavior,” *American Economic Review: Insights*, March 2020, 83-100.

<https://pubs.aeaweb.org/doi/pdfplus/10.1257/aeri.20190041>

Zhao Chen, Zhikuo Liu, Juan Carlos Suárez Serrato, Daniel Yi Xu, “Notching R&D Investment with Corporate Income Tax Cuts in China,” *American Economic Review*, July 2021, 2065-2100. <https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20191758>