

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

This course follows Economics 230A, and will consider several applications of the theory of taxation and public expenditures. Although Economics 230A is not an absolute prerequisite, students who have not taken that course may find the need to do some additional reading to be able to follow the material in some sections of Economics 230B.

**Class meetings:** Tuesdays (and, on occasion, Thursdays), 9-11, 639 Evans Hall

**Office hours:** Monday, 10:00-11:30

**Prerequisites:** First-year graduate microeconomics (Economics 201A,B)  
First-year graduate econometrics (Economics 240A)

**Requirements:**

Problem sets (2) -	20%
Paper (5 page review) -	15%
Class participation -	20%
Final examination -	45%

There is no required textbook for this course. All starred readings below are required and are included in the course reader, which will be available at Copy Central. Several of the papers are reprinted in Alan J. Auerbach, ed., *Public Finance* (Worth Series in Outstanding Contributions), 2000.

### I. BEHAVIORAL EFFECTS OF CAPITAL INCOME TAXATION

#### A. *Savings and Portfolio Choice*

\*Douglas Bernheim, "Taxation and Saving," *Handbook of Public Economics* volume 3, forthcoming, mimeo.

\*James Poterba, "Taxation, Risk-Taking and Household Portfolio Behavior," *Handbook of Public Economics* volume 3, forthcoming, mimeo.

Mervyn King and Jonathan Leape, "Wealth and Portfolio Composition: Theory and Evidence," *Journal of Public Economics*, August 1998, 155-93.

Steven Venti and David Wise, "Have IRAs Increased U.S. Saving? Evidence from Consumer Expenditure Surveys," *Quarterly Journal of Economics*, August 1990, 661-98.

William Gale and Karl Scholz, "IRAs and Household Saving" *American Economic Review*, December 1994, 1233-60.

### ***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*.

\*Alan Auerbach and Jonathan Siegel, "Capital Gains Realizations of the Rich and Sophisticated," *American Economic Review*, May 2000, 276-82.

\*Alan Auerbach, "Retrospective Capital Gains Taxation," *American Economic Review*, March 1991, 167-78.

Joseph Stiglitz, "Some Aspects of the Taxation of Capital Gains," *Journal of Public Economics*, July 1983, 257-94.

Alan Auerbach, "On the Design and Reform of Capital Gains Taxation," *American Economic Review*, May 1992, 263-67.

### ***C. Corporate Financial Structure***

\*Alan Auerbach, "Taxation and Corporate Financial Policy," *Handbook of Public Economics* volume 3, forthcoming, mimeo.

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*, 1988, 157-83.

### ***D. Investment Behavior***

\*Alan Auerbach, "Tax Reform and Adjustment Costs: The Impact on Investment and Market Value," *International Economic Review*, November 1989, 939-62.

\*Jason Cummins, Kevin Hassett and Glenn Hubbard, "A Reconsideration of Investment Behavior Using Tax Reforms as Natural Experiments," *Brookings Papers on Economic Activity*, 1994:2, 1-59.

\*James Hines, "Tax Policy and the Activities of Multinational Corporations," in Alan J. Auerbach, ed., *Fiscal Policy: Lessons from Economic Research*, 1997, Chapter 9.

Luis Alvarez, Vesa Kannianen, and Jan Södersten, "Tax Policy, Uncertainty and Corporate Investment: A Theory of Tax-Induced Investment Spurts," *Journal of Public Economics*, July 1998, 17-48.

Bronwyn Hall and John Van Reenan, "How Effective are Fiscal Incentives for R&D?" Burch Center Working Paper No. B99-04, March 1999.

## II. LABOR INCOME TAXATION AND INCOME TRANSFER PROGRAMS

### A. *Basic Labor Supply Estimates*

\*Nada Eissa, "Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment," NBER Working Paper No. 5023, February 1995.

\*Richard Blundell, Alan Duncan, and Costas Meghir, "Estimating Labor Supply Responses Using Tax Reforms," *Econometrica*, July 1998, 827-61.

\*James Ziliak and Thomas Kneisner, "Estimating Life Cycle Labor Supply Tax Effects," *Journal of Political Economy*, April 1999, 326-59.

### B. *Responsiveness of Taxable Income*

\*Martin Feldstein, "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act," *Journal of Political Economy*, June 1995, 551-72. Reprinted in Auerbach, ed., *Public Finance*.

\*Jonathan Gruber and Emmanuel Saez, "The Elasticity of Taxable Income: Evidence and Implications," NBER Working Paper No. 7512, January 2000.

### C. *The Design of Low Income Support Schemes*

\*George Akerlof, "The Economics of Tagging as Applied to the Optimal Income Tax," *American Economic Review*, March 1978, 8-19.

\*Timothy Besley and Stephen Coate, "The Design of Income Maintenance Programmes," *Review of Economic Studies*, April 1995, 187-221.

Emmanuel Saez, "Optimal Income Transfer Programs: Intensive Versus Extensive Labor Supply Responses," NBER Working Paper No. 7708, May 2000.

***D. Behavioral Responses***

\*Robert Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," *Journal of Economic Literature*, March 1992, 1-61.

\*Nada Eissa and Jeffrey Liebman, "Labor Supply Response to the Earned Income Tax Credit," *Quarterly Journal of Economics*, May 1996, 605-37. Reprinted in Auerbach, ed., *Public Finance*.

Hilary Hoynes and Thomas MaCurdy, "Has the Decline in Benefits Shortened Welfare Spells?" *American Economic Review*, May 1994, 43-48.

**III. SOCIAL SECURITY**

***A. Design Issues***

\*Peter Diamond, "A Framework for Social Security Analysis," *Journal of Public Economics*, December 1977, 275-98.

\*Peter Diamond and James Mirrlees, "A Model of Social Insurance with Variable Retirement," *Journal of Public Economics*, December 1978, 295-336.

Martin Feldstein, "The Optimal Level of Social Security Benefits," *Quarterly Journal of Economics*, May 1985, 300-20.

Martin Feldstein, "Should Social Security Benefits Be Means Tested?" *Journal of Political Economy*, June 1987, 468-84.

***B. Simulation Models of the Impact of Social Security***

\*Alan Auerbach and Laurence Kotlikoff, *Dynamic Fiscal Policy*, 1987, Chapters 10 and 11.

Glenn Hubbard and Kenneth Judd, "Social Security and Individual Welfare: Precautionary Saving, Borrowing Constraints, and the Payroll Tax," *American Economic Review*, September 1987, 630-46.

Glenn Hubbard, Jonathan Skinner, and Stephen Zeldes, "Precautionary Saving and Social Insurance," *Journal of Political Economy*, April 1995, 360-99.

***C. Social Security and Labor Supply***

\*Martin Feldstein and Andrew Samwick, "Social Security Tax Rules and Marginal Tax Rates," *National Tax Journal*, March 1992, 1-22.

\*Courtney Coile and Jonathan Gruber, "Social Security and Retirement," NBER Working Paper No. 7830, August 2000.

Andrew Samwick, "New Evidence on Pensions, Social Security, and the Timing of Retirement," *Journal of Public Economics*, November 1998, 207-36.

Jonathan Gruber and Peter Orszag, "Does the Social Security Earnings Test Affect Labor Supply and Benefits Receipt?" NBER Working Paper No. 7923, September 2000.

#### ***D. Social Security and Saving***

\*William Gale, "The Effects of Pensions on Household Wealth: A Reevaluation of Theory and Evidence," *Journal of Political Economy*, August 1998, 706-23.

Peter Diamond and Jerry Hausman, "Individual Retirement and Savings Behavior," *Journal of Public Economics*, February/March 1984, 81-114.

Douglas Bernheim, "The Economic Effects of Social Security: Toward a Reconciliation of Theory and Measurement," *Journal of Public Economics*, August 1987, 273-304.

#### ***E. Distributional Issues and Reform***

\*Laurence Kotlikoff, Kent Smetters, and Jan Walliser, "Privatizing Social Security in the U.S.: Comparing the Options," *Review of Economic Dynamics*, July 1999, 532-74.

\*Julia Lynn Coronado, Don Fullerton, and Thomas Glass, "Long Run Effects of Social Security Reform Proposals on Lifetime Progressivity" NBER Working Paper No. 7568, February 2000.

Kjetil Storesletten, Chris Telmer, and Amir Yaron, "The Risk-Sharing Implications of Alternative Social Security Arrangements," *Carnegie-Rochester Conference Series on Public Policy*, June 1999, 213-59.

Mariacristina DeNardi, Selahattin Imrohorglu, and Thomas Sargent, "Projected US Demographics and Social Security," *Review of Economic Dynamics*, July 1999, 575-615.

#### ***F. Political Economy***

\*Guido Tabellini, "The Politics of Intergenerational Redistribution," *Journal of Political Economy*, April 1991, 335-57.

Thomas Cooley and Jorge Soares, "Will Social Security Survive the Baby Boom?" *Carnegie-Rochester Conference Series on Public Policy*, December 1996, 89-121.

#### IV. GOVERNMENT POLICY AND HEALTH INSURANCE

\*David Cutler, "Health Care and the Public Sector," *Handbook of Public Economics* volume 3, forthcoming, mimeo.

\*Jonathan Gruber and James Poterba, "Tax Incentives and the Decision to Purchase Health Insurance: Evidence from the Self-Employed," *Quarterly Journal of Economics*, August 1994, 701-33.

\*David Cutler and Jonathan Gruber, "Does Public Insurance Crowd Out Private Insurance?" *Quarterly Journal of Economics*, May 1996, 391-430.

Jonathan Gruber, "The Incidence of Mandated Maternity Benefits," *American Economic Review*, June 1994, 622-41. Reprinted in Auerbach, ed., *Public Finance*.

Brigitte Madrian, "Employment-Based Health Insurance and Job Mobility: Is There Evidence of Job Lock?" *Quarterly Journal of Economics*, February 1994, 27-54.

Billy Jack and Louise Sheiner, "Welfare Improving Health Expenditure Subsidies," *American Economic Review*, March 1997, 206-21.