

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 and firms. 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 social insurance programs.

Class meetings: Tuesdays 9-11, 608-7 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. Virtually all readings given below are available free on the web within the UC Berkeley IP domain. Starred readings are required; those starred readings not available on the web (i.e., those for which no URLs are given) will be made available in hard copy. 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 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, volumes 1 (1985), 2 (1987), 3 (2002) and 4 (2002)

A. Auerbach, ed., *Public Finance*, Worth (1999)

Other relatively recent texts that you may find helpful for their coverage of particular topics are:

G. Myles, *Public Economics*, Cambridge University Press (1995)

B. Salanié, *The Economics of Taxation*, MIT Press (2003)

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. www.jstor.org

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. www.sciencedirect.com

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

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

Henrik Kleven, Claus Kreiner, and Emmanuel Saez, "The Optimal Income Taxation of Couples," NBER Working Paper 12685, November 2006. www.nber.org

D. Dynamic Tax Issues

* Auerbach and Hines, Section 7. www.sciencedirect.com

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

* 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. www.jstor.org

Alan Auerbach, "The Choice Between Income and Consumption Taxes: A Primer" NBER Working Paper 12307, June 2006 www.nber.org

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

E. Tax Incidence

- * Don Fullerton and Gilbert Metcalf, "Tax Incidence," *Handbook of Public Economics*, vol. 4, Chapter 26. www.sciencedirect.com

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.

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. (available online as NBER Working Paper 11686, October 2005. www.nber.org)

Jonathan Gruber and Botond Koszegi, "Tax Incidence When Individuals are Time-Inconsistent: The Case of Cigarette Excise Taxes," *Journal of Public Economics*, August 2004, pp. 1959-1987. www.sciencedirect.com

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. www.sciencedirect.com

Lans Bovenberg and Lawrence Goulder, "Environmental Taxation," *Handbook of Public Economics*, vol. 3, Chapter 23. www.sciencedirect.com

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. www.sciencedirect.com

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*. www.jstor.org

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. www.sciencedirect.com
- 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. www.jstor.org
- Suzanne Scotchmer, "Local Public Goods and Clubs," *Handbook of Public Economics*, vol. 4, Chapter 29. www.sciencedirect.com
- Torsten Persson and Guido Tabellini, "Federal Fiscal Constitutions: Risk Sharing and Redistribution," *Journal of Political Economy*, October 1996, 979-1009. www.jstor.org
- Timothy Besley and Stephen Coate, "Centralized versus Decentralized Provision of Local Public Goods: A Political Economy Approach," *Journal of Public Economics*, December 2003, pp. 2589-2637. www.sciencedirect.com

III. CAPITAL INCOME TAXATION**A. Household Behavior**

- * James Poterba, "Taxation, Risk-Taking, and Household Portfolio Behavior" *Handbook of Public Economics*, vol. 3, Chapter 17. www.sciencedirect.com
- * Alan Auerbach and Jonathan Siegel, "Capital Gains Realizations of the Rich and Sophisticated," *American Economic Review*, May 2000, 276-282. www.jstor.org
- Alan Auerbach and David Bradford "Generalized Cash-Flow Taxation," *Journal of Public Economics*, April 2004, 957-980. www.sciencedirect.com
- 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

B. Corporate Financial Policy

- * Alan Auerbach, "Taxation and Corporate Financial Policy," *Handbook of Public Economics*, vol. 3, Chapter 19. www.sciencedirect.com
- Alan Auerbach and Mervyn King, "Taxation, Portfolio Choice, and Debt-Equity Ratios: A General Equilibrium Model," *Quarterly Journal of Economics*, November 1983, 587-609. www.jstor.org

Alan Auerbach and David Reishus, "The Effects of Taxation on the Merger Decision," in A. Auerbach, ed., *Corporate Takeovers* (U. of Chicago Press, 1988), 157-183. (available online as NBER Working Paper 2192, March 2987. www.nber.org)

Alan Auerbach and Kevin Hassett, "On the Marginal Source of Investment Funds," *Journal of Public Economics*, January 2003, 205-232. www.sciencedirect.com

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. www.mitpressjournals.org/loi/qjec

C. Investment Behavior

* Alan Auerbach, "Tax Reform and Adjustment Costs: The Impact on Investment and Market Value," *International Economic Review*, November 1989, 939-962. www.jstor.org

* Kevin Hassett and Glenn Hubbard, "Tax Policy and Business Investment," *Handbook of Public Economics*, vol. 3, Chapter 20. www.sciencedirect.com

Mihir Desai and Austan Goolsbee, "Investment, Overhang and Tax Policy," *Brookings Papers on Economic Activity*, 2004:2, 285-355. www.jstor.org

D. Tax Competition and International Taxation

* Roger Gordon and James Hines, "International Taxation," *Handbook of Public Economics*, vol. 4, Chapter 28. www.sciencedirect.com

* John Wilson, "Theories of Tax Competition," *National Tax Journal*, June 1999, 269-304. ntj.tax.org

* Rachel Griffith and Alexander Klemm, "What Has Been the Tax Competition Experience of the Last 20 Years?" Institute for Fiscal Studies Working Paper 04/05, February 2004. www.ifs.org.uk

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 Finance*, July 1992, 1159-1180. www.jstor.org

William C. Randolph, "International Burdens of the Corporate Income Tax," Congressional Budget Office Working Paper 2006-9, August 2006. www.cbo.gov/ftpdocs/75xx/doc7503/2006-09.pdf