

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 general optimal income tax problem, behavioral effects of government policy and the institutional characteristics of important U.S. federal taxes and social insurance programs.

Class meetings: Tuesdays 9-11, 639 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 collection, selections from which appear on the reading list, is useful for background reference:

Alan Auerbach and Martin Feldstein, eds., *Handbook of Public Economics*, North-Holland, volumes 1 (1985), 2 (1987), 3 (2002) and 4 (2002)

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

Gareth Myles, *Public Economics*, Cambridge University Press (1995)

Richard Tresch, *Public Finance: A Normative Theory*, 2nd ed., Academic Press (2002)

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

James Mirrlees *et al.*, eds., *Reforming the Tax System for the 21st Century: The Mirrlees Review*, Oxford University Press (forthcoming)
<http://www.ifs.org.uk/mirrleesreview/publications.php>

I. THEORY OF TAXATION AND PUBLIC EXPENDITURE

A. Introduction

- * Anthony Atkinson and Joseph Stiglitz, *Lectures on Public Economics*, McGraw-Hill (1980), Lecture 11.

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

<http://www.jstor.org/stable/pdfplus/3083300.pdf>

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.
http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P63-4FFPH82-W-1&_cdi=24619&_user=4420&_orig=browse&_coverDate=01%2F01%2F2002&_sk=999969999&view=c&wchp=dGLbVzW-zSkWA&md5=33f2a17d513cf73b21bc4134f1b09e4&ie=/sdarticle.pdf

C. Dynamic Tax Issues

- * Auerbach and Hines, Section 7.
 - * Douglas Bernheim, "Taxation and Saving," *Handbook of Public Economics*, vol. 3, Chapter 18; Sections 2-3.
http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P63-4FFPH82-S-1&_cdi=24619&_user=4420&_orig=browse&_coverDate=01%2F01%2F2002&_sk=999969999&view=c&wchp=dGLbVzW-zSkzS&md5=583ad0d82964bb53e70a5de24c6d2943&ie=/sdarticle.pdf
 - * Alan Auerbach, Laurence Kotlikoff and Jonathan Skinner, "The Efficiency Gains from Dynamic Tax Reform," *International Economic Review*, February 1983, 81-100;
<http://www.jstor.org/stable/pdfplus/2526116.pdf>
 - * 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>
- Mikhail Golosov, Aleh Tsyvinski, and Iván Werning, "New Dynamic Public Finance: A User's Guide," *NBER Macroeconomics Annual 2006*, 318-363. <http://econ-www.mit.edu/files/866>
- Alan J. 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>

D. Tax Incidence

- * Don Fullerton and Gilbert Metcalf, "Tax Incidence," *Handbook of Public Economics*, vol. 4, Chapter 26.
http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P63-4FFPH82-5-1&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999959999&view=c&wchp=dGLbVtb-zSkWA&md5=550656004d4d0f6460b28667038b3106&ie=/sdarticle.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/papers/w11686.pdf>

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?_ob=MImg&_imagekey=B6V76-49MX48S-1-1&_cdi=5834&_user=4420&_orig=search&_coverDate=08%2F31%2F2004&_sk=99119990&view=c&wchp=dGLzVtz-zSkWb&md5=2c5b441204cf40986b2c2b301c8461fe&ie=/sdarticle.pdf

E. 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.
- * Gilbert E. Metcalf, "Market-based Policy Options to Control U.S. Greenhouse Gas Emissions" *Journal of Economic Perspectives* 23(2), Spring 2009, 5-27.
http://ucelinks.cdlib.org:8888/sfx_local?&REMOTE_ADDR=72.5.9.197&artnum=1075&atitle=Market-based%20Policy%20Options%20to%20Control%20U.S.%20Greenhouse%20Gas%20Emissions&aulast=Metcalf&aufirst=Gilbert&date=2009&epage=27&genre=article&issue=2&spage=5&title=Journal%20of%20Economic%20Perspectives&volume=23

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

http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P63-4FFPH82-Y-1&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999959999&view=c&wchp=dGLbVtb-zSkWA&md5=550656004d4d0f6460b28667038b3106&ie=/sdarticle.pdf

[999969999&view=c&wchp=dGLzVzz-zSkWz&md5=80e9419a479cba6b80517bc7fe6ca74c&ie=/sdarticle.pdf](http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P63-4FFPH82-9&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999969999&view=c&wchp=dGLzVzz-zSkWz&md5=80e9419a479cba6b80517bc7fe6ca74c&ie=/sdarticle.pdf)

II. PUBLIC CHOICE

A. Voting and Agency

* Atkinson and Stiglitz, *Lectures on Public Economics*, 299-310 and 507-515.

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

http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P63-4FFPH82-9&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999969999&view=c&wchp=dGLbVtb-zSkWb&md5=0dd46a4aeab3a2b44751648cfea064d9&ie=/sdarticle.pdf

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

http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B6V76-4G7X9GF-1-P&_cdi=5834&_user=4420&_orig=search&_coverDate=01%2F31%2F2006&_sk=99099998&view=c&wchp=dGLbVlb-zSkzS&md5=a12f42cdecc9bbe296f093f83660cf23&ie=/sdarticle.pdf

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

http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B6V76-4MFJJ34-1-1F&_cdi=5834&_user=4420&_orig=search&_coverDate=04%2F30%2F2007&_sk=999089996&view=c&wchp=dGLbVzW-zSkWb&md5=66c62a18450a42bb9bef79738674c269&ie=/sdarticle.pdf

B. Federalism, the Tiebout Model, and Education Finance

* Peter Mieszkowski and George Zodrow, "Taxation and the Tiebout Model," *Journal of Economic Literature*, September 1989, 1098-1146.
<http://www.jstor.org/stable/pdfplus/2726776.pdf>

* Eric Hanushek, "Publicly Provided Education," *Handbook of Public Economics*, vol. 4, Chapter 30, Section 7.
http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P63-4FFPH82-9-1&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999959999&view=c&wchp=dGLzVtb-zSkWb&md5=e99b128bad45b2eb49b2a45b115c7660&ie=/sdarticle.pdf

Roger Gordon, "An Optimal Taxation Approach to Fiscal Federalism," *Quarterly Journal of Economics*, November 1983, 567-586.
<http://www.jstor.org/stable/pdfplus/1881778.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?_ob=MImg&_imagekey=B6V76-47C8TWR-1-96&_cdi=5834&_user=4420&_orig=search&_coverDate=12%2F31%2F2003&_sk=999129987&view=c&wchp=dGLbVzW-zSkWb&md5=bffd1ee0936943b16a8a6c05d332673c&ie=/sdarticle.pdf

III. CAPITAL INCOME TAXATION

A. Household Behavior

- * James Poterba, "Taxation, Risk-Taking, and Household Portfolio Behavior" *Handbook of Public Economics*, vol. 3, Chapter 17.
http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P63-4FFPH82-R-1&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999969999&view=c&wchp=dGLbVlb-zSkzV&md5=5eed67a28541e03e6220fca7ba9de38a&ie=/sdarticle.pdf

Alan Auerbach and Jonathan Siegel, "Capital Gains Realizations of the Rich and Sophisticated," *American Economic Review*, May 2000, 276-282.
<http://www.jstor.org/stable/pdfplus/117235.pdf>

Alan Auerbach and David Bradford "Generalized Cash-Flow Taxation," *Journal of Public Economics*, April 2004, 957-980.

http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B6V76-4961Y36-2-4F&_cdi=5834&_user=4420&_orig=search&_coverDate=04%2F30%2F2004&_sk=999119994&view=c&wchp=dGLbVzz-zSkWb&md5=f88ed57525af1682f3e4d5765f75a3fe&ie=/sdarticle.pdf

B. Corporate Financial Policy

- * Alan Auerbach, "Taxation and Corporate Financial Policy," *Handbook of Public Economics*, vol. 3, Chapter 19.
http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P63-4FFPH82-T-1&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999969999&view=c&wchp=dGLbVzz-zSkzk&md5=1591fa29b4e7c1f474ebac7d029f8b9d&ie=/sdarticle.pdf

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.
<http://www.nber.org/papers/w2192.pdf>

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?_ob=MImg&_imagekey=B6V76-475YFXJ-B-1H&_cdi=5834&_user=4420&_orig=search&_coverDate=01%2F31%2F2003&_sk=999129998&view=c&wchp=dGLbVIW-zSkzS&md5=402e177c724cb4717ade7f9ee7cc55d5&ie=/sdarticle.pdf

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.
<http://www.mitpressjournals.org/doi/pdf/10.1162/003355305774268174>

C. Investment Behavior

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

http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P63-4FFPH82-V-1&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999969999&view=c&wchp=dGLzVzz-zSkWA&md5=7a40e534150c59b604d2606c648cb312&ie=/sdarticle.pdf

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

<http://www.jstor.org/stable/pdfplus/2526760.pdf>

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?_ob=MImg&_imagekey=B6V76-45YCSP0-1-49&_cdi=5834&_user=4420&_orig=search&_coverDate=07%2F31%2F2002&_sk=999149998&view=c&wchp=dGLbVzb-zSkzk&md5=e7e415fec6c8bafc99d10c944a9a9263&ie=/sdarticle.pdf

Mihir Desai and Austan Goolsbee, "Investment, Overhang and Tax Policy," *Brookings Papers on Economic Activity*, 2004:2, 285-355.
<http://www.jstor.org/stable/pdfplus/3805111.pdf>

Christopher House and Matthew Shapiro, "Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation," *American Economic Review*, June 2008, 737-768. <http://www.atypon-link.com/AEAP/doi/pdf/10.1257/aer.98.3.737?cookieSet=1>

D. Tax Competition and International Taxation

- * Roger Gordon and James Hines, "International Taxation," *Handbook of Public Economics*, vol. 4, Chapter 28.
http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P63-4FFPH82-7-1&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999959999&view=c&wchp=dGLbVzb-zSkzV&md5=72d03b27930878f2ad75783d7a8b3104&ie=/sdarticle.pdf
 - * John Wilson and David Wildasin, Capital Tax Competition: Bane or Boon? *Journal of Public Economics*, June 2004, 1065-1091.
http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B6V76-4991T9C-1-4&_cdi=5834&_user=4420&_orig=search&_coverDate=06%2F30%2F2004&_sk=999119993&view=c&wchp=dGLzVtb-zSkWA&md5=3f2e60f5dad3be1877b6e28d819b423d&ie=/sdarticle.pdf
 - * 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. <http://www.ifs.org.uk/wps/wp0405.pdf>
- Roger Gordon, "Can Capital Income Taxes Survive in Open Economies?" *Journal of Finance*, July 1992, 1159-1180. <http://www.jstor.org/stable/pdfplus/2328981.pdf>