

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 begin by covering core material and some recent applications on taxation, public expenditures, public choice, and fiscal federalism, and then move on to consider capital income taxation and its effects 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. All readings given below are available on the web from within the UC Berkeley IP domain. The following collection, several selections from which appear on the reading list, is also useful for a general background reference:

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

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

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., *Dimensions of Tax Design: The Mirrlees Review*, Oxford University Press (2010) <http://www.ifs.org.uk/mirrleesReview/dimensions>

I. THEORY OF TAXATION AND PUBLIC EXPENDITURE

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.

http://www.sciencedirect.com/science?_ob=MIimg&_imagekey=B7P63-4FFPH82-W-1&_cdi=24619&_user=4420&_orig=browse&_coverDate=01%2F01%2F2002&_sk=999969999&view=c&wchp=dGLbVzW-zSkWA&md5=33f2a17d513cfd73b21bc4134f1b09e4&ie=/sdarticle.pdf

Alberto Alesina, Andrea Ichino, Loukas Karabarbounis, "Gender Based Taxation and the Division of Family Chores," NBER Working Paper No. 13638, November 2007.

<http://www.nber.org/papers/w13638.pdf>

Dhammika Dharmapala, Joel Slemrod, John Wilson, "Tax Policy and the Missing Middle: Optimal Tax Remittance with Firm-Level Administrative Costs," May 2008.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1138015

B. Tax Incidence

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

http://www.sciencedirect.com/science?_ob=MIimg&_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

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=MIimg&_imagekey=B6V76-49MX48S-1-1&_cdi=5834&_user=4420&_orig=search&_coverDate=08%2F31%2F2004&_sk=999119990&view=c&wchp=dGLzVtz-zSkWb&md5=2c5b441204cf40986b2c2b301c8461fe&ie=/sdarticle.pdf

Raj Chetty, "The Simple Economics of Salience and Taxation," NBER Working Paper No. 15246, August 2009. <http://www.nber.org/papers/w15246.pdf>

C. Provision for Public Goods, Externalities, and Imperfect Competition

Auerbach and Hines, "Taxation and Economic Efficiency," *Handbook of Public Economics*, vol. 3, Chapter 21; Sections 5 and 6.

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

http://www.sciencedirect.com/science?_ob=MIimg&_imagekey=B7P63-4FFPH82-Y-1&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999969999&view=c&wchp=dGLzVzz-zSkWz&md5=80e9419a479cba6b80517bc7fe6ca74c&ie=/sdarticle.pdf

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://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.23.2.5>

Vidar Christiansen and Stephen Smith, "Externality-Correcting Taxes and Regulation, Institute for Fiscal Studies Working paper 09/16, September 2009.

<http://www.ifs.org.uk/wps/wp0916.pdf>

II. PUBLIC CHOICE AND FISCAL FEDERALISM

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?_ob=MIImg&_imagekey=B7P63-4FFPH82-10-1&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999969999&view=c&wchp=dGLbVtb-zSkWb&md5=0dd46a4aeab3a2b44751648cfea064d9&ie=/sdarticle.pdf

B. Voting, Agency, and Budget Rules

James Poterba, "State Responses to Fiscal Crisis: The Effects of Budgetary Institutions and Politics," *Journal of Political Economy*, August 1994, 799-821.

<http://www.jstor.org/stable/pdfplus/2138765.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=MIImg&_imagekey=B6V76-47C8TWR-1-96&_cdi=5834&_user=4420&_orig=search&_coverDate=12%2F31%2F2003&_sk=999129987&view=c&wchp=dGLbVzW-zSkWb&md5=bfdd1ee0936943b16a8a6c05d332673c&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=MIImg&_imagekey=B6V76-4G7X9GF-1-P&_cdi=5834&_user=4420&_orig=search&_coverDate=01%2F31%2F2006&_sk=999099998&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=MIImg&_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

C. Property Taxes, 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=MIImg&_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

Thomas Nechyba, "What Can Be (and What Has Been) Learned from General Equilibrium Simulation Models of School Finance?" *National Tax Journal*, June 2003.

<http://ntj.tax.org/wwtax/ntjrec.nsf/dockey/506180C1541C58FA85256D8D0079B0B4?OpenDocument>

III. SAVING, AND PORTFOLIO CHOICE

A. *Overviews*

James Poterba, "Taxation, Risk-Taking, and Household Portfolio Behavior" *Handbook of Public Economics*, vol. 3, Chapter 17.

http://www.sciencedirect.com/science?_ob=MIImg&_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

Douglas Bernheim, "Taxation and Saving," *Handbook of Public Economics*, vol. 3, Chapter 18.

http://www.sciencedirect.com/science?_ob=MIImg&_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

B. *Optimal Taxation of Saving and the Choice of Tax Base*

Auerbach and Hines, "Taxation and Economic Efficiency," *Handbook of Public Economics*, vol. 3, Chapter 21; Sections 7.

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>

Andrés Erosa, Martin Gervais, "Optimal Taxation in Life-Cycle Economies," *Journal of Economic Theory*, August 2002, 338-369.

http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6WJ3-46FS8SR-5&_user=4420&_coverDate=08%2F31%2F2002&_alid=1421578888&_rdoc=2&_fmt=h_igh&_orig=search&_cdi=6867&_sort=r&_docanchor=&view=c&_ct=2&_acct=C000059607&_version=1&_urlVersion=0&_userid=4420&md5=f0d2634f6ba46be72984a5308a799ccf

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>

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>

James Banks and Peter Diamond, "The Base for Direct Taxation," in J. Mirrlees et al., eds., *Dimensions of Tax Design*, Institute for Fiscal Studies (2010), Chapter 6, 548-648.
<http://www.ifs.org.uk/mirrleesreview/dimensions/ch6.pdf>

C. Tax-Favored Saving

Robert Dammon, Chester Spatt, and Harold Zhang, "Optimal Asset Location and Allocation with Taxable and Tax-Deferred Investing," *Journal of Finance*, June 2004, 999-1037. <http://www3.interscience.wiley.com/cgi-bin/fulltext/118755778/PDFSTART>

Alexander Gelber, "How Do 401(k)s Affect Saving? Evidence from Changes in 401(k) Eligibility," September 2009.
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1348768

D. The Behavior of High-Income Individuals: Taxation of Capital Gains and Estates

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=MIimg&_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

Ivković, Zoran, 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>

Wojciech Kopczuk, "Bequest and Tax Planning: Evidence from Estate Tax Returns," *Quarterly Journal of Economics*, November 2007, 1801-1854.
<http://www.mitpressjournals.org/doi/pdf/10.1162/qjec.2007.122.4.1801>

IV. CORPORATE TAXATION, FINANCE AND INVESTMENT

A. *Overviews*

Alan Auerbach, "Taxation and Corporate Financial Policy," *Handbook of Public Economics*, vol. 3, Chapter 19.

http://www.sciencedirect.com/science?_ob=MIimg&_imagekey=B7P63-4FFPH82-T-1&_cdi=24619&_user=4420&_orig=search&_coverDate=01%2F01%2F2002&_sk=999969999&view=c&wchp=dGLbVzz-zSkz&md5=1591fa29b4e7c1f474ebac7d029f8b9d&ie=/sdarticle.pdf

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

http://www.sciencedirect.com/science?_ob=MIimg&_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

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

http://www.sciencedirect.com/science?_ob=MIimg&_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

B. *Corporate Tax Incidence*

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>

Mihir Desai and Dhammika Dharmapala, "Corporate Tax Avoidance and Firm Value," *Review of Economics and Statistics*, August 2009, 537-546.

<http://www.mitpressjournals.org/doi/pdf/10.1162/rest.91.3.537>

Raj Chetty and Emmanuel Saez, "Dividend and Corporate Taxation in an Agency Model of the Firm." *American Economic Journal: Economic Policy*, August 2010, 1-31.

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/pol.2.3.1>

C. *Corporate Financial Policy*

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=MIimg&_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](http://www.mitpressjournals.org/doi/pdf/10.1162/003355305774268174)

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>

D. *Investment Behavior*

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=MIimg&_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>

Julie Cullen and Roger Gordon, "Taxes and Entrepreneurial Risk-Taking: Theory and Evidence for the U.S.," *Journal of Public Economics*, August 2007, 1479-1505. http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6V76-4MWGYFP-2& user=4420& coverDate=08%2F31%2F2007& alid=1422472879& rdoc=2& fmt=h_igh&_orig=search&_cdi=5834&_sort=r&_docanchor=&view=c&_ct=4&_acct=C000059607&_version=1&_urlVersion=0&_userid=4420&md5=d94d9c217d9f22d2398d6676291a7242

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>

E. *Tax Competition and International Taxation*

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=MIimg&_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>