

University of California, Berkeley
Department of Economics
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Professor Alan Auerbach
525 Evans Hall
3-0711; auerbach@econ.berkeley.edu

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 taxes and social insurance programs.

Class meetings: Tuesdays 9-11, 639 Evans Hall, Sept. 3- Dec. 3

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. Students with other backgrounds should consult the instructor.

Requirements:

Problem sets (2)	30%
Paper (app. 5 page review)	20%
Final examination	50%

Lecture notes will generally be posted on the course web site prior to each class providing an outline of points to be discussed, derivations of detailed results, and other review materials.

There is no textbook for this course. Readings given below are accessible from within the UC Berkeley IP domain. Starred readings should be considered more important. Several readings are from the following collection, which is also a useful background reference:

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

Alan Auerbach, Raj Chetty, Martin Feldstein, and Emmanuel Saez, eds., *Handbook of Public Economics*, Elsevier, volume 5 (2013)

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

Bernard Salanié, *The Economics of Taxation*, 2nd ed., MIT Press (2011)

(A concise treatment of selected topics in the theory of taxation)

Louis Kaplow, *The Theory of Taxation and Public Economics*, Princeton University Press (2008)

(A less technical, intuitive discussion of the theory of taxation and public expenditure)

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

(A recent collection of useful surveys motivated by a consideration of UK tax design)

Course Outline and Syllabus

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/article/pii/S1573442002800258>

Alberto Alesina, Andrea Ichino, and Loukas Karabarbounis, "Gender Based Taxation and the Division of Family Chores," *American Economic Journal: Economic Policy* May 2011, 1-40. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/pol.3.2.1>

B. *Basic Tax Incidence*

- * Don Fullerton and Gilbert Metcalf, "Tax Incidence," *Handbook of Public Economics*, vol. 4, Chapter 26; Sections 1-2.
<http://www.sciencedirect.com/science/article/pii/S1573442002800052>

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/article/pii/S004727270300077X>

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

C. *Public Goods, Externalities, and the Marginal Cost of Public Funds*

- * Lans Bovenberg and Lawrence Goulder, "Environmental Taxation and Regulation," *Handbook of Public Economics*, vol. 3, Chapter 23; Section 4.
<http://www.sciencedirect.com/science/article/pii/S1573442002800271>
- * Auerbach and Hines, "Taxation and Economic Efficiency," *Handbook of Public Economics*, vol. 3, Chapter 21; Sections 5 and 6.

- * Fullerton and Metcalf, "Tax Incidence," *Handbook of Public Economics*, vol. 4, Chapter 26; Section 3.

Nathaniel Hendren, "The Policy Elasticity," NBER Working Paper No. 19177, June 2013. <http://www.nber.org/papers/w19177.pdf>

Agnar Sandmo, "Global Public Economics: Public Goods and Externalities," *Économie Publique*, 2006 (1-2), 3-21. <http://economiepublique.revues.org/4282?file=1>

D. Dynamic Taxation

- * 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. <http://www.jstor.org/stable/pdfplus/2677880.pdf>

Alan 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>

Andrés Erosa and Martin Gervais, "Optimal Taxation in Life-Cycle Economies," *Journal of Economic Theory*, August 2002, 338-369. <http://www.sciencedirect.com/science/article/pii/S0022053101928777>

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>

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/article/pii/S1573442002800283>

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/article/pii/S004727270200141X>

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

<http://www.sciencedirect.com/science/article/pii/S0047272705000423>

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

<http://www.sciencedirect.com/science/article/pii/S0047272706001356>

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>

Stephen Calabrese, Dennis Epple, and Richard Romano, "Inefficiencies from Metropolitan Political and Fiscal Decentralization: Failures of Tiebout Competition," *Review of Economic Studies*, July 2012, 1081-1111.

<http://restud.oxfordjournals.org/content/79/3/1081.full.pdf+html>

- * Eric Hanushek, "Publicly Provided Education," *Handbook of Public Economics*, vol. 4, Chapter 30, Section 7.

<http://www.sciencedirect.com/science/article/pii/S157344200280009X>

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/article/pii/S1573442002800210>

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

<http://www.sciencedirect.com/science/article/pii/S1573442002800222>

B. *Portfolio Choice*

Laura Kawano, "The Dividend Clientele Hypothesis: Evidence from the 2003 Act," *American Economic Journal: Economic Policy*, February 2014.

<http://dx.doi.org/10.2139/ssrn.1668158>

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>

Gabriel Carroll, James Choi, David Labison, Brigitte Madrian, and Andrew Metrick, "Optimal Defaults and Active Decisions," *Quarterly Journal of Economics*, November 2009, 1639-1674. <http://qje.oxfordjournals.org/content/124/4/1639.full.pdf+html>

Alexander Gelber, "How Do 401(k)s Affect Saving? Evidence from Changes in 401(k) Eligibility," *American Economic Journal: Economic Policy*, November 2011. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/pol.3.4.103>

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>

Zoran Ivković, 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>

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>

Wojciech Kopczuk, "Taxation of Intergenerational Transfers and Wealth," *Handbook of Public Economics*, vol. 5, Chapter 6. <http://www.sciencedirect.com/science/article/pii/B9780444537591000066>

IV. CORPORATE TAXATION, FINANCE AND INVESTMENT**A. 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/chapters/c0065.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>

B. Corporate Financial Policy

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

<http://www.sciencedirect.com/science/article/pii/S1573442002800234>

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/article/pii/S0047272701001724>

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.jstor.org/stable/pdfplus/25098756.pdf>

C. Investment Behavior

- * Kevin Hassett and Glenn Hubbard, "Tax Policy and Business Investment," *Handbook of Public Economics*, vol. 3, Chapter 20; Sections 1-4

<http://www.sciencedirect.com/science/article/pii/S1573442002800246>

Christopher House and Matthew Shapiro, "Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation," *American Economic Review*, June 2008, 737-768. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.98.3.737>

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/article/pii/S004727270100086X>

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/article/pii/S004727270600168X>

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/article/pii/S1573442002800076>

Michael Keen and Kai Konrad, "The Theory of International Tax Competition and Coordination," *Handbook of Public Economics*, vol. 5, Chapter 5.

<http://www.sciencedirect.com/science/article/pii/B9780444537591000054>

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>