

University of California, Berkeley
Department of Economics

James R. Hines Jr.
Spring 2009

Economics 230c

Public Sector Microeconomics

Class

Meeting times: Tuesdays, 10:00-12:00.
Place: 608-7 Evans Hall.

Instructor

Office: 621 Evans Hall
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Economics 230c: The course

This course is designed for Ph.D. students in the department of economics. The purpose of the course is to provide a working knowledge of modern theoretical and empirical analysis of selected topics in public economics. The first topic area is corporate taxation; the second is international taxation. Additional topics include fiscal policy competition and political economy. Readings and class assignments concern methods of evaluating policies and analyzing the effects of taxation on economic behavior. The course emphasizes tools necessary to understand the economics literature and its implications for current tax policy issues.

Requirements

The formal course requirements are successful completion of three problem sets and a final examination. Grades will be based 30% on the problem sets and 70% on the final examination. While strongly encouraged, class participation is ungraded. Books and notes may not be consulted during the final examination. The due dates of the problem sets will be announced when they are distributed; late problem sets receive zero credit toward the semester grade.

Corporate Taxation

I. Dividends and other distributions

Alan J. Auerbach, Taxation and corporate financial policy, in Alan J. Auerbach and Martin Feldstein eds., *Handbook of Public Economics*, volume 3 (Amsterdam: North-Holland, 2002), 1251-1292.

Eugene F. Fama and Kenneth R. French, Disappearing dividends: Changing firm characteristics or lower propensity to pay? *Journal of Financial Economics*, April 2001, 60 (1), 3-43.

Gustavo Grullon and Roni Michaely, Dividends, share repurchases, and the substitution hypothesis, *Journal of Finance*, August 2002, 57 (4), 1649-1684.

Eugene F. Fama and Kenneth R. French, Testing tradeoff and pecking order predictions about dividends and debt, *Review of Financial Studies*, Spring 2002, 15 (1), 1-37.

John H. Boyd and Ravi Jagannathan, Ex-dividend price behavior of common stocks, *Review of Financial Studies*, Winter 1994, 7 (4), 711-741.

Raj Chetty and Emmanuel Saez, Dividend taxes and corporate behavior: Evidence from the 2003 dividend tax cut, *Quarterly Journal of Economics*, August 2005, 120 (3), 791-833.

B. Douglas Bernheim and Adam Wantz, A tax-based test of the dividend signaling hypothesis, *American Economic Review*, June 1995, 85 (3), 532-551.

James R. Hines Jr., Dividends and profits: Some unsubtle foreign influences, *Journal of Finance*, June 1996, 51 (2), 661-689.

Mihir A. Desai, C. Fritz Foley and James R. Hines Jr., Dividend policy inside the multinational firm, *Financial Management*, Spring 2007, 36 (1), 5-26.

II. Debt, equity and acquisitions

Merton H. Miller, Debt and taxes, *Journal of Finance*, May 1977, 32 (2), 261-275.

Eugene F. Fama and Kenneth R. French, Taxes, financing decisions and firm value, *Journal of Finance*, June 1998, 53 (3), 819-843.

John R. Graham, Debt and the marginal tax rate, *Journal of Financial Economics*, May 1996, 41 (1), 41-73.

John R. Graham, Do personal taxes affect corporate financing decisions? *Journal of Public Economics*, August 1999, 73 (2), 147-185.

John R. Graham, How big are the tax benefits of debt? *Journal of Finance*, October 2000, 55 (5), 1901-1941.

Dan Givoly, Carla Hayn, Aharon R. Ofer and Oded Sarig, Taxes and capital structure: Evidence from firms' response to the Tax Reform Act of 1986, *Review of Financial Studies*, Summer 1992, 5 (2), 331-355.

Raghuram G. Rajan and Luigi Zingales, What do we know about capital structure? Some evidence from international data, *Journal of Finance*, December 1995, 50 (5), 1421-1460.

Steven Kaplan, Management buyouts: Evidence on taxes as a source of value, *Journal of Finance*, July 1989, 44 (3), 611-632.

Merle M. Erickson and Shiing-wu Wang, Tax benefits as a source of merger premiums in acquisitions of private corporations, *Accounting Review*, March 2007, 82 (2), 359-387.

Carla Hayn, Tax attributes as determinants of shareholder gains in corporate acquisitions, *Journal of Financial Economics*, April 1989, 23 (1), 121-153.

III. Investment

Kevin A. Hassett and R. Glenn Hubbard, Tax policy and business investment, in Alan J. Auerbach and Martin Feldstein eds., *Handbook of Public Economics*, volume 3 (Amsterdam: North-Holland, 2002), 1293-1343.

Alan J. Auerbach, The Tax Reform Act of 1986 and the cost of capital, *Journal of Economic Perspectives*, Summer 1987, 1 (1), 73-86.

Alan J. Auerbach and Kevin A. Hassett, Tax policy and business fixed investment in the United States, *Journal of Public Economics*, March 1992, 47 (2), 141-170.

Jason G. Cummins, Kevin A. Hassett, and R. Glenn Hubbard, A reconsideration of investment behavior using tax reforms as natural experiments, *Brookings Papers on Economic Activity*, 1994 (2), 1-59.

Robert S. Chirinko, Steven M. Fazzari, and Andrew P. Meyer, How responsive is business capital formation to its user cost? An exploration with micro data, *Journal of Public Economics*, October 1999, 74 (1), 53-80.

Austan D. Goolsbee, Investment tax incentives, prices, and the supply of capital goods, *Quarterly Journal of Economics*, February 1998, 113 (1), 121-148.

Christopher L. House and Matthew D. Shapiro, Temporary investment tax incentives: Theory with evidence from bonus depreciation, *American Economic Review*, June 2008, 98 (3), 737-768.

Alan J. Auerbach and Kevin Hassett, On the marginal source of investment funds, *Journal of Public Economics*, January 2003, 87 (1), 205-232.

Austan D. Goolsbee and Mihir A. Desai, Investment, overhang, and tax policy, *Brookings Papers on Economic Activity*, 2004 (2), 285-338.

Alan J. Auerbach and James R. Hines Jr., Investment tax incentives and frequent tax reforms, *American Economic Review*, May 1988, 78 (2), 211-216.

Simeon Djankov, Tim Ganser, Caralee McLeish, Rita Ramalho, and Andrei Shleifer, The effect of corporate taxes on investment and entrepreneurship, NBER Working Paper No. 13756, January 2008.

James R. Hines Jr., Investment ramifications of distortionary tax subsidies, NBER Working Paper No. 6615, June 1998.

International Taxation

I. Foreign direct investment

David G. Hartman, Tax policy and foreign direct investment, *Journal of Public Economics*, February 1985, 26 (1), 107-121.

James R. Hines Jr. and Eric M. Rice, Fiscal paradise: Foreign tax havens and American business, *Quarterly Journal of Economics*, February 1994, 109 (1), 149-182.

James R. Hines Jr., Altered states: Taxes and the location of foreign direct investment in America, *American Economic Review*, December 1996, 86 (5), 1076-1094.

Rosanne Altshuler, Harry Grubert and T. Scott Newlon, Has U.S. investment abroad become more sensitive to tax rates? in James R. Hines Jr., ed., *International Taxation and Multinational Activity*, (Chicago: University of Chicago Press, 2001), 9-32.

James R. Hines, Jr., "Tax sparing" and direct investment in developing countries, in James R. Hines Jr., ed. *International taxation and multinational activity* (Chicago: University of Chicago Press, 2001), 39-66.

Michael P. Devereux and Rachel Griffith, Evaluating tax policy for location decisions, *International Tax and Public Finance*, March 2003, 10 (2), 107-126.

Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., Foreign direct investment in a world of multiple taxes, *Journal of Public Economics*, December 2004, 88 (12), 2727-2744.

Roger H. Gordon and James R. Hines Jr., International taxation, in Alan J. Auerbach and Martin Feldstein eds., *Handbook of Public Economics*, volume 4 (Amsterdam: North-Holland, 2002), 1935-1995.

James R. Hines Jr., Credit and deferral as international investment incentives, *Journal of Public Economics*, October 1994, 55 (2), 323-347.

Alfons J. Weichenrieder, Anti-tax avoidance provisions and the size of foreign direct investment, *International Tax and Public Finance*, January 1996, 3 (1), 67-81.

Harry Grubert and Joel Slemrod, The effect of taxes on investment and income shifting to Puerto Rico, *Review of Economics and Statistics*, August 1998, 80 (3), 365-373.

Mihir A. Desai and James R. Hines Jr., "Basket" cases: Tax incentives and international joint venture participation by American multinational firms, *Journal of Public Economics*, March 1999, 71 (3), 379-402.

II. International borrowing

Harry Huizinga, The incidence of interest withholding taxes: Evidence from the LDC loan market, *Journal of Public Economics*, March 1996, 59 (3), 435-451.

Leslie E. Papke, One-way treaty with the world: The U.S. withholding tax and the Netherlands Antilles, *International Tax and Public Finance*, May 2000, 7 (3), 295-313.

Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., A multinational perspective on capital structure choice and internal capital markets, *Journal of Finance*, December 2004, 59 (6), 2451-2487.

Harry Grubert, Taxes and the division of foreign operating income among royalties, interest, dividends and retained earnings, *Journal of Public Economics*, May 1998, 68 (2), 269-290.

David G. Hartman, Taxation and the effects of inflation on the real capital stock in an open economy, *International Economic Review*, June 1979, 20, 417-425.

III. Tax avoidance

Kimberly A. Clausing, Tax-motivated transfer pricing and US intrafirm trade prices, *Journal of Public Economics*, September 2003, 87 (9-10), 2207-2223.

Kimberly A. Clausing, The impact of transfer pricing on intrafirm trade, in James R. Hines Jr. ed., *International Taxation and Multinational Activity* (Chicago: University of Chicago Press, 2001).

David Harris, Randall Morck, Joel Slemrod, and Bernard Yeung, Income shifting in U.S. multinational corporations, in Alberto Giovannini, R. Glenn Hubbard, and Joel Slemrod (eds.) *Studies in International Taxation* (Chicago: University of Chicago Press, 1993).

Mihir A. Desai and James R. Hines Jr., Expectations and expatriations: Tracing the causes and consequences of corporate inversions, *National Tax Journal*, September 2002, 55 (3), 409-440.

Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., Repatriation taxes and dividend distortions, *National Tax Journal*, December 2001, 54 (4), 829-851.

Rosanne Altshuler and Harry Grubert, Repatriation taxes, repatriation strategies and multinational financial policy, *Journal of Public Economics*, January 2003, 87 (1), 73-107.

Mihir A. Desai and James R. Hines Jr., Market reactions to export subsidies, *Journal of International Economics*, March 2008, 74 (2), 459-474.

IV. Tax competition

Sam Bucovetsky, Asymmetric tax competition, *Journal of Urban Economics*, September 1991, 30 (2), 167-181.

Ravi Kanbur and Michael Keen, Jeux sans frontières: Tax competition and tax coordination when countries differ in size, *American Economic Review*, September 1993, 83 (4), 877-892.

Roger H. Gordon, Can capital income taxes survive in open economies? *Journal of Finance*, July 1992, 47 (3), 1159-1180.

Michael Keen, Preferential regimes can make tax competition less harmful, *National Tax Journal*, December 2001, 54 (4), 757-762.

John Douglas Wilson and David E. Wildasin, Capital tax competition: Bane or boon? *Journal of Public Economics*, June 2004, 88 (6), 1065-1091.

James R. Hines Jr., Do tax havens flourish? in James M. Poterba ed., *Tax Policy and the Economy*, vol. 19 (Cambridge, MA: MIT Press, 2005), 65-99.

Dhammika Dharmapala and James R. Hines Jr., Which countries become tax havens? NBER Working Paper No. 12802, December 2006.

Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., The demand for tax haven operations, *Journal of Public Economics*, March 2006, 90 (3), 513-531.

Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., Do tax havens divert economic activity?, *Economics Letters*, February 2006, 90 (2), 219-224.

Andrew K. Rose and Mark M. Spiegel, Offshore financial centres: Parasites or symbionts? *Economic Journal*, October 2007, 117 (523), 1310-1335.

Joel Slemrod and John D. Wilson, Tax competition with parasitic tax havens, NBER Working Paper No. 12225, May 2006.

V. International tax policy implications

Thomas Horst, A note on the optimal taxation of international investment income, *Quarterly Journal of Economics*, June 1980, 94 (4), 793-798.

Assaf Razin and Efraim Sadka, International tax competition and gains from tax harmonization, *Economics Letters*, September 1991, 37 (1), 69-76.

Michael Keen and Hannu Piekkola, Simple rules for the optimal taxation of international capital income, *Scandinavian Journal of Economics*, 1997, 99 (3), 447-461.

Joel Slemrod, Carl Hansen, and Roger Procter, The seesaw principle in international tax policy, *Journal of Public Economics*, August 1997, 65 (2), 163-176.

Mihir A. Desai and James R. Hines Jr., Evaluating international tax reform, *National Tax Journal*, September 2003, 56 (3), 487-502.

James R. Hines Jr., Foreign income and domestic deductions, *National Tax Journal*, September 2008, 61 (3), 461-475.

Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., Foreign direct investment and domestic economic activity, NBER Working Paper No. 11717, October 2005; forthcoming, *American Economic Journal: Economic Policy*, February 2009.

Roger H. Gordon, Taxation of investment and savings in a world economy, *American Economic Review*, December 1986, 76 (5), 1086-1102.

Wolfgang Eggert and Andreas Haufler, Capital taxation and production efficiency in an open economy, *Economics Letters*, January 1999, 62 (1), 85-90.

Michael Keen and David Wildasin, Pareto-efficient international taxation, *American Economic Review*, March 2004, 94 (1), 259-275.