

# **Economics 150**

## **Public Finance: Taxation**

**Spring Term, 2009**

Professor Roger Gordon

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Office hours: Wednesday 12:30 – 3:30

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Normal office hours: Tuesday 12:30 - 2:30, Sequoyah 233

Extra office hours the week before each exam: Thursday 12:30 - 2:30

**Course Goals:** The overall objective of this course is to provide an overview of the existing national tax structure in the United States, its effects on individual and firm decisions, and the resulting efficiency costs and distributional consequences. We then examine several commonly proposed alternatives to the current income tax.

**Prerequisite:** Economics 100A, or permission of the instructor

**Exams:** There will be two in-class midterm exams, each counting for 25% of the final grade. The dates are listed below. The final exam will count for the remaining 50% of the final grade. Grading will be on a curve.

The midterms can raise your numerical grade but cannot lower it: I will use the maximum of your score on the final, your weighted score using in addition either midterm, or your weighted score using in addition both midterms, to determine the final ranking. There will be no make-up exams for these midterms. If you cannot take either or both midterm exams, then your final grade will be based on those exams that you do take.

**Readings:** The basic readings for the course come from:

Gruber: Jonathan Gruber, *Public Finance and Public Policy* and

SB: Joel Slemrod & Jon Bakija, *Taxing Ourselves* (any editions)

**Lectures:** The lectures are an integral part of the course, and will go well beyond the required readings.

## **Course Outline**

**March 31, April 2:** Overview of taxation, tax incidence

Gruber, ch. 18.1, 19

SB, ch. 2

Williams, "Where does Federal Tax Revenue Come From?"

**April 7:** Efficiency costs of taxes

Gruber, ch. 20.1

**April 9:** Equity considerations

Gruber ch. 18.3, 18.6

SB, ch. 3

**April 14:** Trade-off

Gruber, ch. 20.2-3

**April 16:** Other considerations in tax policy

SB, ch. 4-5

Gruber, pp. 726-32. (pp. 691-5 in Edition 1)

Slemrod, "Cheating Ourselves: The Economics of Tax Evasion"

**April 21:** Review and midterm exam

**April 23:** Personal income tax, overview

Gruber, ch. 18.2, 18.4

Piketty-Saez, "How Progressive is the Federal Tax System?"

Burman et al, "The Expanding Reach of the Individual Alternative Minimum Tax"

Alm et al, "The Marriage Penalty"

**April 28, 30:** Effects on labor supply (2 classes)

Gruber, ch. 21

Kotlikoff et al, "Does it Pay, at the Margin, to Work and Save?"

**May 5, 7:** Effects on savings behavior and portfolio choice (2 classes)

Gruber, ch. 22.1-3, 23.1-2

Stiglitz, "The General Theory of Tax Avoidance," *National Tax Journal*, 1985, pp. 325-37.

**May 12:** Deductible items

Gruber, ch. 18.5

Clotfelter, "The Impact of Tax Reform on Charitable Giving: A 1989 Perspective," NBER Working Paper No. 3273.

Cogan et al, "Healthy, Wealthy, and Wise," *Wall Street Journal*, May 4, 2004.

Gale et al, "Encouraging Home Ownership through the Tax Code"

SB, pp. 185-96

Report of the President's Advisory Panel on Federal Tax Reform, "Policy Recommendations", pp. 70-82.

**May 14:** Review and midterm exam

**May 19, 21:** Corporate income tax:

Gruber, ch. 24

Toder-Koch, "Fewer Businesses are Organized as Taxable Corporations"

Brill, "Corporate Tax Rates, Receipts, and Distortions"

**May 26:** Estate tax

Gruber, ch. 23.3

Burman et al., "Options for Reforming the Estate Tax"

**May 28:** Debt finance

Gruber, ch. 4

Auerbach et al, "Generational Accounting"

Shapiro-Slemrod, "Consumer Response to Tax Rebate"

Burman, "Dynamic Analysis and Scoring"

**June 2, 4:** Possible tax reforms

Gruber 25.3-4

SB, pp. 166-84, ch. 7

Gale, "Flat Tax"

Auerbach, "The Choice Between Income Taxes and Consumption Taxes: A Primer," pp. 1-18.

Sheffrin, "Should the Federal Income Tax be Replaced with a National Sales or Value-Added Tax?"

Report of the President's Advisory Panel on Federal Tax Reform, "Policy Recommendations"

**June 9:** Final exam, 8:00 - 11:00