

Economics 150

Public Finance: Taxation

Winter Term, 2012

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Extra office hours: January 30 1:30 – 3:30

February 17 10:00 – 12:00

March 16 10:00 – 12:00

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 tax reforms.

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)

Designated chapters are from edition 3 of Gruber and edition 4 of SB. It is fine to use a different edition, but if you do you need to take into account that the chapter numbers may differ by edition.

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

Course Outline

January 10, 12: Overview of taxation, tax incidence

Gruber, ch. 18.1, 19

SB, ch. 2

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

Marion, "Fuel Tax Incidence and Supply Conditions"

January 17: Efficiency costs of taxes

Gruber, ch. 20.1

January 19: Equity considerations

Gruber ch. 18.3, 18.6

SB, ch. 3

January 24: Trade-off

Gruber, ch. 20.2-3

January 26: Other considerations in tax policy

SB, ch. 4-5

Gruber, pp. 739-43, (pp. 726-32 in Ed. 2 and pp. 691-5 in Ed. 1)

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

January 29: Optional review session, Peterson 103 at 7:00 PM

January 31: Review and midterm exam

February 2: 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"

February 7, 9: Effects on labor supply (2 classes)

Gruber, ch. 21

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

February 14, 16: 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.

February 21: 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. 216-30 (pp. 217-31 in Ed. 3 and pp. 184-97 in Ed. 2)

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

February 21: Optional review session, WLH 2111 at 7:00 PM

February 23: Review and midterm exam

February 28, March 1: Corporate income tax:

Gruber, ch. 24

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

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

March 6: Estate tax

Gruber, ch. 23.3

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

March 8: Debt finance

Gruber, ch. 4

Auerbach et al, "Generational Accounting"

Shapiro-Slemrod, "Consumer Response to Tax Rebate"

Burman, "Dynamic Analysis and Scoring"

March 13, 15: Possible tax reforms

Gruber 25.3-4

SB, pp. 189-216 (pp. 165-84 in Ed. 2), 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"

Tax by Design: The Mirrlees Review, chapter 20

March 18: Optional review session, Peterson 103 at 7:00 PM

March 22: Final exam, 8:00 - 11:00