JANUARY 12, 2016

Econ 9460
Advanced Public Economics II (Taxation)
David L. Sjoquist
Spring 2016

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Office Hours:  By appointment
Class Time:  Tue & Thurs 4:00-5:15pm
Class Place:  127 Langdale Hall

Public Economics examines government tax and spending policies: what does government do, what are the effects of these actions, and whether these effects “good” or “bad”. Economics 9460 is part of a doctoral-level sequence in public economics, and focuses upon issues in taxation. The course describes the major taxes used by developed counties; it analyzes the impacts of taxation on the allocation of resources, i.e., economic behavior; and evaluates the level and distribution of economic welfare.

COURSE LEARNING OUTCOMES

1. The student should be able to define and understand the effects of taxes on the distribution of income (e.g., the theory of “tax incidence”), and be able to measure the incidence of direct and indirect taxes using both partial and general equilibrium models of tax incidence.
2. The student should be able to define and understand concepts of “tax equity”, be able to evaluate the equity of a tax and of tax systems.
3. The student should be able to define and understand the effects of taxes on the efficiency of resource allocation (e.g., the theory of “excess burden”), and be able to analyze the excess burden of direct and indirect taxes using both partial and general equilibrium models of excess burden.
4. The student should be able to define and understand the effects of taxes on revenues, and be able to derive the revenue maximizing tax rate for a particular type of tax.
5. The student should be able to derive the conditions for optimal commodity and income taxation, including being able to analyze the trade-offs among equity, efficiency, and revenues in any tax system.
6. The student should be able to define and understand positive models of taxation, and be able to analyze their implications for tax structure.
7. The student should be able to analyze the effect of alternative tax regimes on savings, labor, retirement, consumption, and investment decisions.
8. The student should be able to construct and evaluate a model of tax compliance, and be able to analyze the impacts of alternative tax rate and tax administration policies on tax compliance.
9. The student should be able to describe and understand the major revenue sources (e.g., personal income tax, corporate income tax, deficit finance, taxes on consumption, and taxes on wealth).
10. The student should be able to define, understand, and evaluate the principles of public finance in a federal system.
COURSE REQUIREMENTS

The prerequisite for this course is Econ 8100.

There will be two exams (a midterm and final), a paper, and periodic homework assignments.

- Midterm examination worth 25 percent of the final grade will be given on March 1st.
- A comprehensive final exam worth 35 percent of the final grade will be given on April 28th at 4:15 pm.
- An original research paper on a public economics topic of your choice; the research paper is worth 30 percent of the final grade. Details of the paper will be discussed in class.
  - Paper topics with a one paragraph abstract are due February 2th.
  - Annotated outlines (3-5 pages) are due on March 8th.
  - Paper is due no later than April 28th at 4:15 pm.
- The remaining 10 percent of the final grade is based upon periodic graded assignments. You will be told which assignments are to be handed in for grades.

Make up exams and late papers and homework will be allowed only if permission is given prior to the scheduled exam.

GRADES

Grades will be assigned as follows:
- A+: 97-100%
- A: 94-96%
- A-: 90-93%
- B+: 87-89%
- B: 84-86%
- B-: 80-83%
- C+: 77-79%
- C: 74-76%
- C-: 70-73%
- D: 0-69%

BrightSpace

BrightSpace (BSPACE) will be used for the course; students are required to check BSPACE for calendar updates, modifications of the syllabus, informational postings, assignments and some readings. BSPACE will also be used to provide presentation materials for class. Please check BSPACE before class for updates.

DISABILITIES

Students who wish to request accommodation for a disability may do so by registering with the Office of Disability Services. Students may only be accommodated upon issuance by the Office of Disability Services of a signed Accommodation Plan and are responsible for providing a copy of that plan to instructors of all classes in which an accommodation is sought.
UNIVERSITY REGULATIONS

Please remember that all university regulations, deadlines, and policies must be observed. In particular, students are expected to follow the GSU Policy on Academic Honesty (Section 409 of the Georgia State University Faculty Handbook). Also, on some date after the mid-point of the course (a date set by the Provost), students on the grade rolls but no longer taking the class will be given a grade of WF, and the last day of class that the student attended or turned in an assignment will be reported to the GSU administration.

COURSE EVALUATION

Your constructive assessment of this course plays an indispensable role in shaping education at Georgia State. Upon completing the course, please take time to fill out the online course evaluation.

OTHER POTENTIAL TOPICS

It is not feasible to cover all of the potential topics that might be part of this course. Here is a list of some of the topics not covered in this course: International tax issues; Taxation and politics; Deficit finance; Corrective taxes; Financing Social Security.

TEXTBOOKS

There are no required textbooks.

The following are graduate level public economics textbooks. Some chapters from some of these books have been assigned.


OTHER READING
The following provide useful advice to economists (read on your own):

McCloskey, Donald, "Economical Writing," Economic Inquiry, April, 1985, 187-222.


Not required, but I recommend that you read the relevant chapters of an undergraduate public finance textbook in order to give you an overview of taxes and an introduction to the theory of taxation. Here are three good choices:


Not required, but for some info on taxes around the globe see:
READING LIST

All readings are required unless otherwise noted. Some of the readings can be found on BSPACE, and are so noted.

The course syllabus provides a general plan for the course; deviations maybe necessary.

Changes to the required readings are likely to be made during the semester.

Reading denoted with an * should be read first for that section.

I. Introduction [1 class session]

Musgrave, Chapter 1, “A Brief History of Fiscal Doctrine,” Handbook of PE: I, sections 1, 3, 4, 5, and 7 (BSPACE)

Slemrod, Joel and Jon Bakija (2008), An Overview of the U.S. Tax System, Chapter 2 of Taxing Ourselves. (BSPACE)


II. Personal Income Tax

II.A. Design Issues and Structure

Tresch, Chapter 11, “Applying First-Best Principles of Taxation—What to Tax and How” (pp 331-352 only) [Note that pages 352-361 are assigned in section VII.A). (BSPACE)

II.B. Labor Supply Elasticities


The following are good, recent surveys on taxes and labor supply, but are not assigned.
II.C. Saving

*Atkinson and Stiglitz, Chapter 3, “Taxation, Saving, and Decisions Over Time.” (BSPACE)


II.D. Other Effects of Personal Income Taxes


III. The Economic Effects of the Corporate Income Tax

III.A. Investment

*Boadway and Wildasin. Chapter 11, section 5 only. Public Sector Economics. (BSPACE)


The following is a standard reference on this topic, but is not assigned.

### III.B. Financing

Myles, section 4.2 of Chapter 8. *Public Economics* (BSPACE)


For a more extensive discussion of financial policy see the following, but it is not assigned.


### IV. Taxes on Wealth


### V. Economics Efficiency (Welfare Loss)

*Tresch, “The Second-Best Theory of Taxation in One-Consumer Economies with Linear Production Technology”, chapter 13 in *Public Finance: A Normative Theory*: pp 399-425 only. (BSPACE)

[An alternative source for this material is

Auerbach, Alan J. (1985), "The Theory of Excess Burden and Optimal Taxation," Chapter 2 in *Handbook of PE: I:*. 61-86. (BSPACE) This is not assigned.]


VI. Taxes and Taxable Income


VII. Tax Incidence

VII. A. Equity/Fairness

Tresch, Chapter 11, “Applying First-Best Principles of Taxation—What to Tax and How” in *Public Finance: A Normative Theory* (pp 352-361 only). (BSPACE)

VII.B. General Theory of Incidence


Mieszkowski is the standard reference for the incidence of the property tax, and an interesting reformulation of Mieszkowski is Zodrow and Mieszkowski, but neither is assigned.


VII.C. Empirical Analysis of Tax Incidence


Fullerton, Don and Diane Lim Rogers (1991), “Lifetime Versus Annual Perspective on Tax Incidence”

VIII. Optimal Taxation


Boadway, Robin (2012). From Optimal Tax Theory to Tax Policy. MIT Press. [This is a very nice non-technical summary of the optimal tax literature. It is not assigned.]

The following are classics, but are not assigned:


IX. Tax Reform

IX.A Description of Alternative Consumption Taxes


IX.B Income vs. Consumption Taxes


Zodrow, G. (2007). “Should Capital Income Be Subject to Consumption-Based Taxation?” Chap 2 in
Aaron, Burman, and Steuerle (eds), Taxing Capital Income. (BSPACE)


X. Tax Administration and Compliance

