

Economics 150

Public Finance: Taxation

Spring Term, 2007

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Thursday 1:00 - 2:00
Extra hours to be scheduled prior to exams, and on request

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 100, 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* (either edition is OK) and
SB: Joel Slemrod & Jon Bakija, *Taxing Ourselves* (any edition)

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

Course Outline

April 3, 5: Overview of taxation, tax incidence

Gruber, ch. 18.1, 19
SB, ch. 2

April 10: Efficiency costs of taxes

Gruber, ch. 20.1

April 12: Equity considerations

Gruber ch. 18.3, 18.6
SB, ch. 3

April 17: Trade-off

Gruber, ch. 20.2-3

April 19: Other considerations in tax policy

SB, ch. 4-5
Gruber, pp. 726-32. (pp. 691-5 in Edition 1)

April 24: Review and midterm exam

April 26: Personal income tax, overview

Gruber, ch. 18.2, 18.4
Burman, et al. "[The Expanding Reach of the Individual Alternative Minimum Tax,](#)" *Journal of Economic Perspectives*, 2003, p. 173-86.

May 1, 3 Effects on labor supply (2 classes)

Gruber, ch. 21

May 8, 10 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 15 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.
SB, pp. 185-96
Report of the President's Advisory Panel on Federal Tax Reform, ["Policy
Recommendations"](#) , pp. 70-82.

May 17 Review and midterm exam

May 22, 24 Corporate income tax:

Gruber, ch. 24

May 29 Estate tax

Gruber, ch. 23.3
Burman et al., ["Options for Reforming the Estate Tax"](#)

May 31 Payroll taxes

Gruber 20.4
Feldstein and Samwick, [“Social Security Rules and Marginal Tax Rates,”](#) *National Tax
Journal*, 1992, pp. 1-22.

June 5 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.
Report of the President's Advisory Panel on Federal Tax Reform, ["Policy
Recommendations"](#)

June 7 Review session

June 12 Final exam, 11:30 - 2:30