

ECON 6430 - SEMINAR ON PUBLIC FINANCE

Spring 2014
Thursday 2:40-5:40pm
BAS S302

Instructor: Jason DeBacker

Office: BAS N306

Office Hours: Tuesday 9am-11am, Thursday 11am-1pm; or by appointment

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Textbooks:

- *Taxing Ourselves*, by Joel Slemrod and Jon Bakija, MIT Press, 2008. (Excellent lay persons' summary of tax policy - please purchase this text)
- *The Economics of Taxation*, by Bernard Salanié (optional, but great reference for theory of taxation)

Webpage: Announcements, problem sets, and additional readings will be posted to the class website which can be found at: <http://mtweb.mtsu.edu/jdebacker/PubFin.html>.

Course Description: The objective of this course is to provide students with the tools of economic theory, and the details of the U.S. tax system, so that they may be better able to analyze the effects of tax policy. The course will cover theories of tax incidence, economic efficiency, measures of the performance of the U.S. tax system, and options for tax reform.

Semester Plan: The semester plan, as well as the exam dates, are attached to this document. As the semester proceeds, there may be changes in the dates certain material will be presented. I will announce any changes to the schedule and then post them on the course webpage. The exam dates will not change.

Class Preparation: Students are expected to have read the relevant materials prior to their presentation in class and to review material covered in the previous classes. I expect every student to be able to participate in classroom discussions.

Assignments: Over the course of the semester there will be three problem sets and three short writing assignments. Problem sets will consist of mostly of numerical examples. Details on the writing assignments will be provided when they are given. A component of the first two writing assignments will be a short (10-15 minute) in-class presentation on your topic. All assignments will be collected at the beginning of the class on the due date. Electronic submission before class is also accepted. Submissions after the due date will not be accepted.

Exams: There are two exams in the course; one midterm exam and a final exam. These exams will consist of analytical problems and short answer questions that test your ability to apply the economic concepts that you will learn through the lectures, problem sets, and readings. Missed exams generally will be treated as zeroes. The exception is if you have a family emergency or serious personal illness. Documentation of the emergency or illness will be required. If you miss an exam with a valid excuse, then the other exam will be re-weighted. There are **no make-up exams**.

The first midterm exam will be given on **March 6** and the final exam will be given on **Thursday May 8** from 3:30-5:30pm, according to the schedule given by the Registrar's Office (<http://www.mtsu.edu/records/sfexam.php>).

Grade Determination: Your grade will be based on the following components: midterm exam (20%), final exam (20%), 3 writing assignments (45%), and 3 problem sets (15%).

The following grading scale will be employed:

A = 92.5 and up
A- = 90.0-92.4
B+ = 87.5-89.9
B = 82.5-87.4
B- = 80.0-82.4
C+ = 77.5-79.9
C = 72.5-77.4
C- = 70.0-72.4
D+ = 67.5-69.9
D = 62.5-67.4
D- = 60.0-62.4
F = 59.9 and below

Grades will be calculated exactly as above. Note that there are no opportunities for “extra credit.” Please do not ask for special favors or consideration of individual circumstances in the determination of your grade.

Attendance: Attendance will not be monitored and does not directly affect your grade. However, it is very likely that missing class will adversely affect your grade in an indirect way.

Disabilities or Health Related Issues: Reasonable accommodations for students with disabilities: ADA accommodation requests (temporary or permanent) are determined only by Disabled Student Services.

Students are responsible for contacting the Disabled Student Services Office at 615-898-2783 to obtain ADA accommodations and for providing the instructor with the accommodation letter from Disabled Student Services.

NOTE: The course syllabus is a general plan for the course; deviations announced to the class by the instructor may be necessary.

Semester Schedule:

Date	Topic
January 16	Introduction; Taxation in Practice: Current U.S. Tax System; Review of Welfare Economics
January 23	Theory: Tax Incidence
January 30	Theory: Efficiency
February 6	Theory: Optimal Taxation
February 13	Institutions, Process, and Public Choice
February 20	Empirical Public Finance: Individual Taxation
February 27	Empirical Public Finance: Individual Taxation; Student Presentations: Individual Tax
March 6	Midterm <i>Spring Break, March 13</i>
March 20	Empirical Public Finance: Corporate and Business Taxation
March 27	Empirical Public Finance: Corporate and Business Taxation
April 3	Student Presentations: Corporate and Business Taxation; Tax Reform: Income vs. Consumption Taxes
April 10	Tax Reform: Income vs. Consumption Taxes
April 17	Tax Reform: Income vs. Consumption Taxes
April 24	Tax Reform Prototypes: Theory and Practice
May 8	Final Exam, 3:30-5:30pm

Readings:

1. Intro and Review of Welfare Economics
 - (a) Slemrod and Bakija, Chapter 1
2. Taxation in Practice: The Current U.S. Tax System
 - (a) Slemrod and Bakija, Chapter 2
 - (b) Salanié, Introduction & Appendix A
 - (c) [Burman, Leonard and William Randolph, "Measuring Permanent Responses to Capital Gains Tax Changes in Panel Data," *American Economic Review*, September, 1994](#)
3. Theory: Tax Incidence
 - (a) Slemrod and Bakija, Chapter 3
 - (b) Salanié, Chapter 2
 - (c) [Metcalf and Fullerton, "The Distribution of Tax Burdens: An Introduction", NBER Working Paper #8978](#)
 - (d) [Fullerton and Metcalf, "Tax Incidence", NBER Working Paper #8829](#)
 - (e) [Poterba, "Retail price reactions to changes in changes in state and local sales taxes", *National Tax Journal* 49 \(1996\) 165-176.](#)
4. Theory: Economic Efficiency
 - (a) Slemrod and Bakija, Chapter 4
 - (b) Salanié, Chapter 1
 - (c) [Kotlikoff and Rapson, "Does it Pay, at the Margin, to Work and Save? – Measuring Effective Marginal Taxes on Americans' Labor Supply and Saving", NBER Working Paper #12533](#)
5. Theory: Optimal Taxation
 - (a) Salanié, Chapter 3, 4 & 5

- (b) Saez, “Using Elasticities to Derive Optimal Income Tax Rates,” *Review of Economic Studies*, 68 (2001): 205-229.
 - (c) Mankiw, Weinzierl, and Yagan. 2009. “Optimal taxation in theory and practice.” *Journal of Economic Perspectives* 23(4): 147-174.
 - (d) Mirrlees, “An Exploration into the Theory of Optimal Income Taxation”, *The Review of Economic Studies*, 38(2), April 1971, pp. 175–208.
6. Taxation in Practice: Institutions, Process, and Public Choice
- (a) Meltzer and Richard, “A Rational Theory of the size of Government”, *The Journal of Political Economy*, 1981
7. Empirical Public Finance: Individual Taxation
- (a) Slemrod and Bakija, Chapter 5
 - (b) Piketty and Saez, “Income Inequality in the United States, 1913-1998”, *Quarterly Journal of Economics*, 2003.
 - (c) Feldstein, “Tax Avoidance and the Deadweight Loss of the Income Tax”, *The Review of Economics and Statistics*, 1999
 - (d) Saez, Slemrod, and Giertz, “The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review”, *Journal of Economic Literature*, 2012
 - (e) Lindsey, “Individual Taxpayer Response to Tax Cuts: 1982-1984”, *Journal of Public Economics*, 1987
 - (f) Feldstein, “The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act”, *Journal of Political Economy*, 1995
 - (g) Auten and Carroll, “The Effect of Income Taxes on Household Income”, *Review of Economics and Statistics*, 1999
 - (h) Goolsbee, “What Happens When You Tax the Rich? Evidence from Executive Compensation”, *Journal of Political Economy*, 2000
 - (i) Gruber and Saez, “The elasticity of taxable income: evidence and implications”, *Journal of Public Economics*, 2002
 - (j) Giertz, “The Elasticity of Taxable Income Over the 1980s and 1990s”, *National Tax Journal*, 2007
 - (k) Saez, “Do Taxpayers Bunch at Kink Points?”, *American Economic Journal: Economic Policy*, 2010
 - (l) Liebman and Saez, 2006
 - (m) Chetty, Looney, and Kroft, 2009
 - (n) Finklestein, 2009
 - (o) Chetty and Saez, 2013
 - (p) Marion and Muehlegger, 2008
 - (q) Slemrod and Johns, 2010
 - (r) Doyle and Samphantharakr, 2008
8. Empirical Public Finance: Corporate and Business Taxation
- (a) Slemrod and Bajka, Chapter 6
 - (b) Jorgenson and Yun, “Lifting the Burden: Tax Reform, the Cost of Capital and U.S. Economic Growth”, 2001
 - (c) Hall and Jorgenson, “Tax Policy and Investment Behavior”, *American Economic Review*. 1967
 - (d) Brazell and Mackie, “Depreciation Lives and Methods: Current Issues in the US Capital Cost Recovery System”, *National Tax Journal*, 2000

- (e) “Corporate Tax Payers and Dodgers, 2011”
 - (f) Chetty and Saez, “The Effects of the 2003 Dividend Tax Cut on Corporate Behavior: Interpreting the Evidence”, *American Economic Review*, 2006
 - (g) Gordon, “Taxation and the Corporate Use of Debt: Implications for Tax Policy”, *National Tax Journal*, 2006
 - (h) Graham, “Debt and the Marginal Tax Rate”, *Journal of Finance*, 1996
 - (i) Mooij, “The Tax Elasticity of Corporate Debt: A Synthesis of Size and Variations”, IMF Working Paper, 2011
 - (j) Kleinbard and Driesen, “A Revenue Estimate Case Study: The Repatriation Holiday Revisited”, *Tax Notes*, 2008
 - (k) Auerback and Hassett, NBER Working Paper #11449, 2006
 - (l) Zodrow, “On the ‘Traditional’ and ‘New’ Views of Dividend Taxation,” *National Tax Journal*, 1991
 - (m) Edgerton, “Four Facts about Dividend Payouts and the 2003 Tax Cut”, *International Tax and Public Finance*, forthcoming
 - (n) Desai, Foley, and Hines, “Labor and Capital Shares of the Corporate Tax Burden: International Evidence”, 2007
9. Tax Reform: Income vs. Consumption Taxes
- (a) Slemrod and Bajka, Chapter 7
 - (b) 2005 Tax Panel Final Report, Chapters 5-6
 - (c) Kopczuk, “Tax Bases, Tax Rates and the Elasticity of Reported Income”, NBER Working Paper # 10044, 2003
 - (d) Graetz, “A Fair and Balance Tax System for the Twenty-first Century”, Chapter 3, *Towards Fundamental Tax Reform*, 2005
10. Tax Reform Prototypes: Theory and Practice
- (a) 2005 Tax Panel Final Report, Chapters 7-9
 - (b) Hubbard, “Would a Consumption Tax Favor the Rich?”, Chapter 5, *Towards Fundamental Tax Reform*, 2005
 - (c) Agha and Haughton, “Designing Vat Systems: Some Efficiency Considerations”, *The Review of Economics and Statistics*, 1996
 - (d) Gale and Steuerle “Tax Policy Solutions”, Brookings Institute, 2005
 - (e) Bruce Bartlett, “What the FairTax Won’t Work”, *Tax Notes*, 2007
 - (f) Avi-Yonah, “Risk, Rents, and Regressivity: Why the United States Needs Both an Income Tax and a VAT”, *Tax Notes*, 2004
 - (g) Bill Gale, “Flat Tax”, Brookings Institute, 2005