

**Economics 5300.03**  
**Public Economics I**  
Autumn 2007  
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EVALUATION

**Evaluation**

Your grade will be determined by a two assignments, a mid-term exam, and a final exam.

|              |                        |                   |     |
|--------------|------------------------|-------------------|-----|
| Assignment 1 | due : Wed. October 3   | before class      | 10% |
| Mid-term     | Wed. October 17        | in class time     | 30% |
| Assignment 2 | due : Wed. November 14 | before class      | 10% |
| Final Exam   | exam period            | (December 5 – 20) | 50% |

Note that assignments are due **before class**, and late assignments will not be accepted.  
The mid-term will be held in class time, and will last 1 hour.

TEXTS

There is no required textbook for this course. The readings will be journal articles and chapters from books. The books to which I will refer most often, and which will be placed on reserve in Scott Library, are

A. Atkinson and J. Stiglitz : *Lectures on Public Economics*  
McGraw–Hill, 1980

denoted *A* & *S* below,

A. Auerbach and M. Feldstein (eds) : *Handbook of Public Economics*  
North–Holland, 2 volumes, 1985 and 1988

denoted *hbk v.1* and *hbk v.2* below,

J. Leach : *A Course in Public Economics*  
Cambridge University Press, 2004

denoted *leach* below

G. Myles : *Public Economics*  
Cambridge University Press, 1995

denoted *myles* below

J. Hindriks and G. Myles *Intermediate Public Economics*  
MIT Press, 2006

denoted *h* & *m* below

## READINGS

### Welfare Economics

- leach*, chapters 1 – 5  
*A & S*, lectures 1,11  
F. Bator : “The Simple Analytics of Welfare Maximization”, *American Economic Review*, 47, 1957, 22–59  
R. Boadway and N. Bruce : *Welfare Economics*, Oxford University Press, 1980  
*myles*, chapter 2  
*h & m*, chapters 2, 12

### Excess Burden of Taxation

- A. Auerbach : “The Theory of Excess Burden and Optimal Taxation”, chapter 2 in *hbk v.1 leach*, chapter 17  
P. Diamond and D. McFadden : “Some Uses of the Expenditure Function in Public Finance”, *Journal of Public Economics*, 3, 1974, 3–22

### Optimal Taxation

- A & S*, lectures 12, 14–2  
A. Auerbach : “The Theory of Excess Burden and Optimal Taxation”, chapter 2 in *hbk v.1 leach*, chapter 18  
P. Diamond and J. Mirrlees : “Optimal Taxation and Public Production”, *American Economic Review*, 61, March 1971, 8–27 and 61, June 1971, 261–278  
*myles*, chapter 4  
A. Sandmo : “Optimal Taxation : An Introduction to the Literature”, *Journal of Public Economics*, 6, July–August 1976, 37–54  
*A & S*, lecture 13  
*myles*, chapter 5  
J. Stiglitz : “Pareto Efficient and Optimal Taxation and the New New Welfare Economics”, chapter 15 in *hbk v.2*  
*h & m*, chapter 15

### Public Goods

- A & S*, lecture 16  
*h & m*, chapter 5  
*leach*, chapters 10 – 12  
T. Bergstrom, L. Blume and H. Varian : “On the Private Provision of Public Goods”, *Journal of Public Economics*, 29, 1986, 25 – 49  
J.-J. Laffont, “Incentives and the Allocation of Public Goods”, chapter 10 in *hbk v. 2*

### Public Choice of Public Goods

- h & m*, chapters 10, 11  
*A & S*, lecture 10  
K. Roberts : “Voting over Income Tax Schedules”, *Journal of Public Economics*, 8, 1977, 329–340  
T. Romer and H. Rosenthal : “Bureaucrats versus Voters : On the Political Economy of Resource Allocation by Direct Democracy”, *Quarterly Journal of Economics*, 93, 1979, 563–587  
C. Tiebout : “A Pure Theory of Local Expenditure”, *Journal of Political Economy*, 64, 1956, 416–424  
D. Baron. : “A Dynamic Theory of Collective Goods Programs”, *American Political Science Review*, 90, 2, 1996, 316–330

N. Hansen and A. Kessler : “The Political Geography of Tax H(e)avens and Tax Hells”, *American Economic Review*, 91, September 2001, 1103–1115

D. Epple and T. Romer : “Mobility and Redistribution”, *Journal of Political Economy*, 99, August 1991, 828–858

#### Taxation and Investment

*A & S*, lecture 5

A. Auerbach : “Taxation, Corporate Financial Policy and the Cost of Capital”, *Journal of Economic Literature*, 21, September 1983, 905–940

R. Boadway, N. Bruce and J. Mintz : “Taxation, Inflation and the Effective Marginal Tax Rate on Capital in Canada”, *Canadian Journal of Economics*, 17, February 1984, 62–79

M. King : “Business Taxation, Finance and Investment”, chapter 17 in *hbk v.2 myles*, chapter 8

J. Stiglitz : “Taxation, Corporate Financial Policy and the Cost of Capital”, *Journal of Public Economics*, 2, 1973, 1–34

J. Stiglitz : “The Corporation Tax”, *Journal of Public Economics*, 5, 1976, 303–311

#### The Personal Income Tax

H. Aaron : “Income Taxes and Housing”, *American Economic Review*, 60, December 1970, 789–806

A. Auerbach : “Retrospective Capital Gains Taxation”, *American Economic Review*, 81, March 1991, 167–178

A. Auerbach and J. Slemrod : “The Economic Effects of the Tax Reform Act of 1986”, *Journal of Economic Literature*, 35, June 1997, 589–632

J. Berkovec and D. Fullerton : “A General Equilibrium Model of Housing, Taxes and Portfolio Choice”, *Journal of Political Economy*, April 1992, 390–429

D. Bradford : *Blueprints for Basic Tax Reform*, Tax Analysts, 1984

P. Diamond : “Inflation and the Comprehensive Tax Base”, *Journal of Public Economics*, 4, 1975, 227–244

G. Engelhardt : “Tax Subsidies and Household Saving : Evidence from Canada”, *Quarterly Journal of Economics*, 111, 1996, 1237–1268

D. Fullerton, J. Shoven and J. Whalley : “Replacing the United States Income Tax with a Progressive Consumption Tax : A Sequenced General Equilibrium Approach”, *Journal of Public Economics*, 20, 1983, 3–24

C. McLure and G. Zodrow : “Treasury I and the Tax Reform Act of 1986 : The Economics and Politics of Tax Reform”, *Journal of Economic Perspectives*, Summer 1987, 37–58

J. Poterba : “Taxation and Housing: Old Questions, New Answers”, *American Economic Review, Papers and Proceedings*, May 1992, 237–242

J. Slemrod (ed) : *Do Taxes Matter? The Impact of the Tax Reform Act of 1986*, M.I.T. Press, 1990

J. Stiglitz : “Some Aspects of the Theory of Capital Gains Taxation”, *Journal of Public Economics*, 21, 1983, 257–294

J. Stiglitz : “The General Theory of Tax Avoidance”, *National Tax Journal*, 38, 1985, 325–338

#### Corporate Taxation in Open Economies

E. Bond and L. Samuelson : “Strategic Behaviour and the Rules for International Taxation of Capital”, *Economic Journal*, 99, 1989, 1099–1111

R. Gordon : “Taxation of Investment and Savings in a World Economy”, *American Economic Review*, 76, 1986, 1086–1102

R. Gordon and H. Varian : “Taxation of Asset Income in the Presence of a World Securities Market”, *Journal of International Economics*, 26, 1989, 205–226

R. Gordon and J. Wilson : “An Examination of Multijurisdictional Corporate Income Taxation under Formula Apportionment”, *Econometrica*, 54, 1986, 1357–1373

T. Gresik : “The Taxing Tax of Taxing Transnationals”, *Journal of Economic Literature*, 39, 2001, 800–838

K. Hamada : “Strategic Aspects of Taxation of Foreign Investment Income”, *Quarterly Journal of Economics*, 80, 1966, 361–375

#### Tax Competition

A. Dixit : “Tax Policy in Open Economies”, chapter 6 in *hbk*, v. 1

F. Flatters, V. Henderson, and P. Mieszkowski : “Public Goods, Efficiency and Regional Fiscal Equalization”, *Journal of Public Economics*, 3, 1974, 99–112

J. Frenkel, A. Razin and E. Sadka : *International Taxation in an Integrated World*, MIT Press, 1991

E. Janeba : “Corporate Income Tax Competition, Double Taxation Treaties, and Foreign Direct Investment”, *Journal of Public Economics*, 56, 1995, 311–325

M. Keen and C. Kotsogiannis : “Does Federalism Lead to Excessively High Taxes?”, *American Economic Review*, 92, 2002, 363–369

P. Kehoe : “Policy Coordination among Benevolent Governments may be Undesirable”, *Review of Economic Studies*, 56, 1990, 289–296

G. Myers : “Optimality, Free Mobility and the Regional Authority in a Federation”, *Journal of Public Economics*, 43, 1990, 107–121

T. Persson and G. Tabellini : “Federal Fiscal Constitutions : Risk Sharing and Moral Hazard”, *Econometrica*, 64, 1996, 623–646

J. Wilson : “Trade, Capital Mobility, and Tax Competition”, *Journal of Political Economy*, 95, 1987, 835–856

J. Wilson : “Tax Competition with Interregional Differences in Factor Endowments”, *Regional Science and Urban Economics*, 21, 1991, 423–452

J. Wilson : “Theories of Tax Competition”, *National Tax Journal*, 52, 1999, 269–304

G. Zodrow and P. Mieszkowski : “Pigou, Tiebout, Property Taxation and the Underprovision of Local Public Goods”, *Journal of Urban Economics*, 19, 1986, 356–370