COURSE OBJECTIVES

To provide an understanding of the application of economic theory to issues of taxation and tax policy. The course describes the U.S. tax structure and analyzes the impact of the existing and alternative tax systems on the allocation of resources, and the level and distribution of economic welfare.

COURSE REQUIREMENTS

There will be two examinations: a midterm worth one-third of the final grade, and a comprehensive final examination also worth one-third. Also, you will be required to write an original research paper on a topic of your choice relevant to the course. The research paper is also worth one-third of your grade. Details of the paper will be discussed in class.

There will also be periodic assignments. Although they will not be collected or graded, questions or modified questions from them may appear on the exams. Students are encouraged to work together on the assignments.

TEXTBOOKS

There are two required textbooks:


A reading packet of articles is also required (starred items on reading list in packet).
READING LIST

All readings are required.

I.A.2.

Stiglitz, Chapter 18

I.A.3.


I.A.4.

Stiglitz, Chapter 20

I.B.2.


I.D.1.


I.D.2.

Stiglitz, Chapter 17

I.E.1.

Stiglitz, Chapter 28

I.E.2.

COURSE OUTLINE

I. Basic Principles of the Economics of Taxation
   A. The Impact of Taxation on Household Decisions
      1. Income and substitution effects of an excise tax.
      2. Primary and excess burdens of an excise tax.
      4. Optimal excise taxation.
   B. The Impact of Taxation on Production Decisions
      1. Taxes on outputs and inputs.
   C. The Impact on the Market (Partial Equilibrium)
      1. Impact on prices facing market participants.
      2. Equivalence of production and consumption taxes.
      3. The incidence of an excise tax.
   D. The Impact on the Market (General Equilibrium)
      1. Impact on prices in other markets.
      2. The incidence of excise and factor taxes.
   E. The Timing of Taxation
      1. The impact of government debt.
      2. Intergenerational incidence.
   F. Fairness and Taxation
      1. Benefit versus ability to pay principles.
      2. Vertical versus horizontal equity.
      3. Optimal progressivity.

II. Taxes on Household Income
   A. Structure of U.S. Personal Income and Payroll Taxes
   B. The Impact of the Personal Income Taxes
      1. On labor supply decisions.
      2. On the savings decision.
      3. On portfolio choice.
   C. Special Topics on the Personal Income Tax
      1. The impact of tax preferences.
      2. The social security benefits tax.
      3. Tax avoidance and evasion.

III. Taxes on Business Income
   A. The Structure of U.S. Corporate Income Taxation
   B. The Impact of the Corporation Income Tax
      1. On investment decisions.
      2. On the financial structure of the firm.
      3. The incidence of the corporation income tax.

IV. Other Types of Taxes
   A. Sales and Excise Taxes
   B. Wealth and Wealth Transfer Taxes

V. The Theory of Tax Design and Reform
   A. General Issues
   B. Income Versus Consumption Taxation
   C. Direct Versus Indirect Taxes
I.F.2.


I.F.3.


II.A.

Stiglitz, Chapter 21
Pechman, Chapters 4 and 7

II.B.1.

Stiglitz, Chapter 19

II.B.2.

Stiglitz, Chapter 22


II.B.3.

Sandmo, cited in II.B.2.


II.C.1.


II.C.2.


II.C.3.

Stiglitz, Chapter 24


III.A.
Stiglitz, Chapter 23
Pechman, Chapter 5

III.B.1.

III.B.2.

III.B.3.

IV.A.
Pechman, Chapter 6

IV. B.
Pechman, Chapters 8 and 9

V.A.
Feldstein, cited in I.F.2.

V.B.

V.C.