



## Department of Economics Course Outline

		<b>Term:</b>	Winter 2013
<b>Course:</b>	Economics 653 [Public Revenue Analysis]	<b>Section:</b>	01
<b>Time:</b>	MWF 9:00 – 9:50	<b>Place:</b>	SS 423
<b>Instructor:</b>	Dr. Kenneth J. McKenzie		
<b>Office:</b>	SS 452	<b>Telephone:</b>	220-4605
<b>Office Hours:</b>	MWF 10:00 – 11:00 or by appointment	<b>E-mail:</b>	<a href="mailto:kjmckenz@ucalgary.ca">kjmckenz@ucalgary.ca</a>

### Textbook(s):

There is no textbook for the course. Journal articles, book chapters and working papers are available online. Lecture notes for some parts of the course will be provided on Blackboard. Key articles are identified with an “\*”. Also, for most sections of the course a “policy oriented” reference is provided from one or both of two sources: *Dimensions of Tax Design*, from the recent Mirrlees Review on the tax system in Britain, which generated survey articles in several areas of tax policy; and the recently released book *Tax Policy in Canada*, edited by myself, Jack Mintz and Heather Kerr. The chapters from the Mirrlees Review are available online from the Institute in Fiscal Studies at <http://www.ifs.org.uk/mirrleesReview/dimension>; copies of *Tax Policy in Canada* will be provided by me (free of charge!). The “policy oriented” readings are intended as background, and will be discussed at various times throughout the course.

**Reserved Readings:** n/a

### Course Description:

Economics 653 focuses on the taxation "side" of Public Finance. The course will analyze both the positive and normative implications of different types of taxes.

A tentative outline of topics and readings is provided below. General topics covered include:

- Efficiency and Optimal Tax Theory
- Equity and Tax Incidence
- Environmental and Resource Taxation
- Savings and Capital Income Taxation
- Taxation, Growth and R&D
- Income vs. Consumption Taxation

**Grade Determination:**

1. Two assignments (10% each)	20%
2. Midterm	20%
3. Presentation	20%
3. Final exam (with take home component)	40%

Each student will make an in-class presentation of an article related to the course, which will occur near the end of the term. Depending upon the number of students in the class, each presentation will take from 20 to 30 minutes. The presentation should be accompanied by a handout describing the ideas, as well as a visual presentation (i.e., PowerPoint). Since most of the material I cover in class will be theoretical in nature, I would like the student presentations to focus on empirical papers, though this is not absolutely necessary. Each student will meet with me during the term to discuss the article they will present. You can suggest an article you would like to present, or talk to me about a general topic and we can come up with an article together. More information on the presentations will be provided as the term proceeds.

Exams and assignments will be marked on a numerical (percentage) basis. A weighted average will be determined using the above weights and converted to a letter grade using the official grading system.

A passing grade on any particular component of the course is not required to pass the course as a whole.

The 2-hour final examination will be scheduled by the department and held during the final examination period in a classroom. There will be take-home and in-class components to the final exam.

**Notes:**

Students must comply with the university regulations concerning "Intellectual Honesty", "Examinations", etc., which are published in the University Calendar.

Any work not submitted on time will receive a grade of zero. Extensions and exemptions for assignments will not normally be given except in the case of documented illness, family emergency, or religious observance.

Students seeking reappraisal of term work should discuss the issue with the instructor *within* fifteen days of the work being returned in class. Unclaimed work will be available from the instructor during office hours.

It is the student's responsibility to request academic accommodations. If you are a student with a documented disability who may require academic accommodation and have not registered with the Disability Resource Centre, please contact their office at 403-220-8237. Students who have not registered with the Disability Resource Centre are not eligible for formal academic accommodation. You are also required to discuss your needs with your instructor no later than fourteen (14) days after the start of this course.

## Topics and Reading List (subject to change)

### Welfare and Economic Efficiency

- \*Auerbach, A. and J. Hines Jr. (2002), “Taxation and Economic Efficiency”, Chapter 21 in *Handbook of Public Economics*, Volume 3, A. Auerbach and M. Feldstein eds., Elsevier Science; sections 1, 2. (Working paper version available online at NBER)
- Tax Policy in Canada, chapter 2, *Tax Policy Objectives*.

### Static Optimal Taxation

- *Optimal Commodity Taxation*
  - \*Auerbach, A. and J. Hines Jr. (2002), “Taxation and Economic Efficiency”, Chapter 21 in *Handbook of Public Economics*, Volume 3, A. Auerbach and M. Feldstein eds., Elsevier Science; section 3.
  - Mirrlees Review, chapter 4, *Value Added Tax and Excises* (I. Crawford, M. Keen and S. Smith)
  - Tax Policy in Canada, chapter 8, *Sales Taxation*.
- *Optimal Income Taxation*
  - \*Auerbach, A. and J. Hines Jr. (2002), “Taxation and Economic Efficiency”, Chapter 21 in *Handbook of Public Economics*, Volume 3, A. Auerbach and M. Feldstein eds., Elsevier Science; section 4.
  - \*Stiglitz, J. (1982), “Self-Selection and Pareto Efficient Taxation”, *Journal of Public Economics* 17, 213-240.
- *Optimal Mixed Taxation (Direct vs. Indirect Taxes)*
  - \*Boadway, R. and P. Pestieau (2002), “Indirect Taxation and Redistribution: The Scope of the Atkinson-Stiglitz Theorem. (Working paper available at Queen’s Economics Department)
  - Atkinson, Anthony B., and Joseph E. Stiglitz (1976), “The Design of Tax Structure: Direct versus Indirect Taxation”, *Journal of Public Economics* 6(1-2), July-August, pp. 55-75.
  - \*Mankiw, G., M. Winzierl and D. Yagan (2009), “Optimal Taxation in Theory and Practice”, *Journal of Economic Perspectives*, Vol. 23(4), 147-74.

### Taxation, Saving, and Business Investment

- \*Optimal Control Notes
- \*Taxation and Savings Notes
- \*Taxation and Investment Notes
- \*Marginal Effective Tax Rate Notes
- \*Hassett, K. and R.G. Hubbard, “Tax Policy and Business Investment”, in *Handbook of Public Economics*, Volume 3, A. Auerbach and M. Feldstein eds., Elsevier Science, 2002. Sections I and II.
- Auerbach, A., “Taxation and Corporate Financial Policy”, in *Handbook of Public Economics*, Volume 3, A. Auerbach and M. Feldstein eds., Elsevier Science, 2002. Sections 1, 2, 3.

- Michael Devereux, 2004, “Measuring Taxes on Income from Capital”, in *Measuring the Tax Burden on Capital and Labor*, ed. by Peter Sørensen, CESIFO Seminar Series, MIT Press, Cambridge, Mass., 35-71.
- Mirrlees Review, chapter 7, *The Effects on Consumption and Savings of Taxing Asset Returns* (O. Attansio and M. Wakefield)
- Mirrlees Review, chapter 9, *Taxing Corporate Income* (A. Auerbach, M. Devereux and H. Simpson)
- Tax Policy in Canada, chapter 6, *Taxation of Income from Property and Capital Gains*.
- Tax Policy in Canada, chapter 7, *Business Income Taxation*.

### Dynamic Optimal Taxation and Capital

- *Traditional Models*
  - \*Auerbach, A. and J. Hines Jr. (2002), “Taxation and Economic Efficiency”, Chapter 21 in *Handbook of Public Economics*, Volume 3, A. Auerbach and M. Feldstein eds., Elsevier Science; section 7.
  - Chamley, C. (1986), “Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives”, *Econometrica* 54(3), 607-622.
  - Akeson, A., V. Chari and P. Kehoe (1999), “Taxing Capital Income: A Bad Idea”, *Federal Reserve Bank of Minneapolis Quarterly Review* 23(3), 3-17.
  - Mirrlees Review chapter 6, *The Base for Direct Taxation* (J. Banks and P. Diamond)
- *New Dynamic Public Finance*
  - \*Golosov, M., A. Tsyvinski, and I. Werning ( ), “New Dynamic Public Finance: A User’s Guide (Available at [http://economics.sas.upenn.edu/~hfang/teaching/socialinsurance/readings/Golosov\\_Tsyvinski\\_Werning06\(5.5\).pdf](http://economics.sas.upenn.edu/~hfang/teaching/socialinsurance/readings/Golosov_Tsyvinski_Werning06(5.5).pdf))

### Tax Incidence

- \*Kotlikoff, L. and L. Summers, “Tax Incidence”, in *Handbook of Public Economics*, Volume 2, A. Auerbach and M. Feldstein eds., Elsevier Science, 1981. Sections 1, 2 and 3. (Working paper version available online at NBER)
- Hamilton, Stephen, 1999 “Tax Incidence Under Oligopoly: A Comparison of Policy Approaches”, *Journal of Public Economics*, 71(2), 233-246.
- Seade, Jesus, 1985, “Profitable Cost Increases and the Shifting of Taxation: Equilibrium Responses to of Markets in Oligopoly”, *Warwick Economic Research Paper*, No. 260.
- Chetty, R., A. Looney, and K. Kroft (2009), “Salience and Taxation: Theory and Evidence”, *American Economic Review* 99:4, 1145-1177.

### Environmental and Resource Taxation

- \*Boadway, Robin and J-F Tremblay (2008), “Pigouvian Taxation in a Ramsey World”, *Asia-Pacific Journal of Accounting and Economics* 15, 183-204. (Working paper version available at Queen’s Economics Department)
- Bovenberg, A. and L. Goulder (2002), “Environmental Taxation and Regulation”, Chapter 23 in *Handbook of Public Economics*, Volume 3, A. Auerbach and M. Feldstein eds., Elsevier Science sections 1-2. Sections 1 and 2.1-2.4

- Bovenberg, A. and L. Goulder (1996), “Optimal Environmental Taxation in the Presence of Other Taxes: General Equilibrium Analysis”, *American Economic Review* 86(4), 985-1000.
- \*Boadway, R. and M. Keen (2009), “Theoretical Perspectives on Resource Taxation”, mimeo. (Working paper version available at Queen’s Economics Department)
- \*Boadway, R.W., N. Bruce, K.J. McKenzie and J.M. Mintz (1987), “Marginal Effective Tax Rates for Capital in the Canadian Mining Industry”, *Canadian Journal of Economics* 20(1), 1-16.
- Tax Policy in Canada, chapter 10, *Environmental Taxation*.
- Tax Policy in Canada, chapter 11, *Resource Taxation*.

### **Taxation, Growth and R&D**

- \*McKenzie, K.J. (2008), “Measuring Tax Incentives for R&D”, *International Tax and Public Finance* 15, 563-81.
- McKenzie, K.J. (2005), “Tax Subsidies for R&D in Canadian Provinces”, *Canadian Public Policy* 31(1), 29-44.
- McKenzie, K.J. and N. Serushun (2009), “Taxation and R&D: An Investigation of the Push and Pull Effects”, *Canadian Public Policy* 36(3), 307-324.
- McKenzie, K.J. (2012), “The Big and Small of Tax Support for R&D in Canada”, SPP Research Paper No. 12-22. (Available online at School of Public Policy web site)

### **Consumption vs Income Taxation**

- Auerbach, A. (2006), “The Choice Between a Consumption Tax and an Income Tax: A Primer”, University of California, Berkley; NBER Working Paper No. 12307.
- Zodrow, George R. (2007), “Should Capital Income Be Subject to Consumption-Based Taxation?”, Oxford Centre for Business Taxation WP 07/15.
- Tax Policy in Canada, chapter 4, *Personal Income Taxation*.

Safewalk / Campus Security: 220-5333  
Emergency Assembly Location – Professional Faculties Food Court