Tentative Syllabus for Economics 651
Theory of Public Finance - Revenue

Course Outline

This is the second semester of a two-semester course in Public Economics. This course focuses on the revenue side of the public sector budget. The prerequisite for the course is graduate microeconomic theory. The course contains four parts. The first one covers the public economy of taxation, and explores both its positive and normative aspects. The second part goes over fiscal federalism; that is, the allocation of fiscal instruments and transfers between the different levels of government. The third part introduces the political constraint. The last part relaxes the assumption of rationality. A reading list for each topic is provided below. Note however that it is intended to serve as a reference since not all sections will be covered this semester.

The course will be organized as follows. During the first part of the semester I will be lecturing, mainly on part I and on some topics from parts II-IV. The second part of the semester will consist of presentations by students.

Grading

Your grade will be based on a class presentation and a final exam. Each student enrolled in the class has to choose one paper from the reading list part II-IV, and present it in class. The presentation format will be similar to a seminar, so a full lecture will be devoted to one presentation. A list of presentations as well as the order of presentations will be established by the beginning of February. The presentation will determine 40% of your grade. Your grade will also be based on a final exam which will be held on May 9th, 2005 from 2.15 pm to 4.15 pm. The final exam will determine 60% of your grade.

Texts and Reading

I have ordered five books for the course. They are:


M is a graduate textbook covering the field of Public Economics. It covers all the material discussed in part I. It is the reference graduate textbook in the field. S is a graduate textbook, focused on the public economy of taxation. It is a fine new textbook. M and S will serve as the main textbooks for the first part of the class. A & F is the third volume of the handbook of public economics. It is focused on the theory of taxation and on the political economy applications to public economics. Students who plan to make research in the field should acquire it. T is the textbook used in the first-semester course. Finally S & B is an optional reading for this class. It provides an overview of the US tax system as well as a discussion of the main issues in taxation. People who are not familiar with the tax system should read it.

The reading list below also contains journal articles and working papers. The articles marked (B) are background papers that layout the basics of a topic. The articles marked (E) are empirical papers. Finally the articles marked (S) are survey papers that provide a summary of the literature on a specific topic.

Reading List

Introduction: The Size of Government


Part I: The Public Economy of Taxation

1. Effects of Taxation

S – Ch. 1-2;

1.1. Tax Incidence


1.2. Labor Supply

M – Ch. 5


1.3. Savings


1.4. Risk-bearing and Portfolio Choice

M – Ch. 7


2. Optimal Taxation


2.1. Indirect Taxation

S – Ch. 3; M – Ch. 4;


2.2. Direct Taxation

S – Ch. 4; M – Ch. 5


2.3. Direct vs. Indirect Taxation

S – Ch. 5; M – Ch. 5


2.4. Capital Income Taxation

S – Ch. 6;

3. Deficit and Debt

M – Ch. 15


4. Social Security

M – Ch. 14;


5. Family Taxation


**Part II: Fiscal Federalism**

1. **The Economic Theory of Federalism**


2. **Intergovernmental Transfers**


3. Commodity Taxation


4. Capital Income Taxation


Part III: Political Economy of Taxation


1. Voting and Taxation


2. **Electoral Systems and Taxation**


3. **The Political Economy of Debt and Deficit**


4. **Political Accountability**


**Part IV: Behavioral Public Finance**


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