

Firouz Gahvari  
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<http://faculty.las.illinois.edu/fgahvari/>

Spring 2020  
TR 2:00-3:20  
215B DKH

**Office Hours:** TR 12:00-12:40.  
Other times: By appointment.

**Teaching Assistant:** Hesong Yang ([hesongy2@illinois.edu](mailto:hesongy2@illinois.edu)).

**Hesong will have review sessions and will go over homework solutions on Fridays 1:00 to 2:50 pm in room 215B DKH. Additionally, he will hold office hours on Mondays and Wednesdays from 3:00 to 5:00 pm in room 15 DKH. You can also ask him questions by email.**

Public economics studies the role of the government in a market economy and the implications of its actions for the citizenry. This course applies economic analysis to study the positive and normative aspects of different tax policies. We will study various topics in modern tax theory including incidence, incentive effects of different tax structures, economics inequality, and theory of optimal taxation, tax evasion, and tax reform. If time permits, we will also apply the lessons learned to developing economies and examine if any aspects of it need to be reformulated.

**Course Grade:** There will be a final, one midterm and a number of homeworks. Your course grade is determined solely on the basis of your performance in the exams, assignments and attendance--Nothing else. Final will count for 40%, midterm for 25%, homeworks for 25%, and attendance/participation encompassing attention (read: no checking of your cell phones) for 10%.

Participation in the final and the midterm is compulsory.

In determining the total homework grade, one homework grade---the one with the lowest grade---will be dropped. Any homework that is not submitted by the due date will be considered as the dropped assignment. This is regardless of the reason and with no exception.

I also believe in equal treatment. Which means **everybody will have to take the same exam and at the same time.**

**Homeworks:** The homework assignments will be available on the Compass course website – <http://compass2g.illinois.edu>.

**Midterm:** Class time, Tuesday, March 10, 2019.

**Final:** Official Campus timetable.

The exams are held in the regular classroom (215B DKH).

**Readings:** There is no textbook in the market that covers the range of material you will be exposed to in this course. I have thus written a series of lecture notes for this purpose myself. These lecture notes are the primary source of reading for the course. They will be either sent to you electronically or posted on the Compass course website <http://compass2g.illinois.edu>, prior to each lecture. The idea is that you will read the material before the lecture so that we can have a good discussion during the class time and you raise your questions with me. Note also that the lecture notes are copyrighted and you cannot post or share it on the web or in other ways. Finally, in the exams you will be responsible for whatever I lecture on in class. Because of that, **attendance is compulsory**.

Nevertheless, below you will find a list of useful public economics texts (with Hindriks and Myles being the most advanced), and other relevant references. As the course progresses, I will also introduce to relevant original articles.

Jean Hindriks and Gareth Myles. *Intermediate Public Economics*, 2<sup>nd</sup> edition, 2013, the MIT Press.

H. Rosen and T. Gayer, *Public Finance*, 10<sup>th</sup> edition, McGraw-Hill, 2013.

J. Stiglitz and J. Rosengard, *Economics of the Public Sector* 4<sup>th</sup> edition, Norton, 2015.

J. Gruber, *Public Finance and Public Policy*, 6<sup>th</sup> Edition, Worth Publishers, New York, 2019.

R. W. Tresch, *Public Finance: A Normative Theory*, 3<sup>rd</sup> edition, Academic Press, 2014.

Joel Slemrod and Jon Bakija, *Taxing Ourselves*, 5<sup>th</sup> edition, the MIT Press, Cambridge, 2017.

Clemens Fuest and George R. Zodrow, Eds, *Critical Issues in Taxation and Development*, CESifo, the MIT Press, Cambridge, 2013.

Vito Tanzi and Ludger Schuknecht, *Public Spending in the 20th Century: A Global Perspective*, Cambridge University Press, 2000.

Sanjeev Gupta, Benedict Clements, Gabriela Inchauste, Eds, *Helping Countries Develop: The Role of Fiscal Policy*, International Monetary Fund, Washington D.C., 2004.

David Newbery and Nicholas Stern, Eds, *the Theory of Taxation for Developing Countries*, Oxford University Press, 1987.

Parthasarathi Shome, Ed, *IMF Tax Policy Handbook*, Fiscal Affairs Department, International Monetary Fund, Washington D.C., 1995.

**Honor Code:** You must obey all UIUC honor codes. No violations, however “minor”, will be tolerated. This includes participation in online services for “help” with your homework assignments and/or uploading any material pertaining to my lectures that I will make available to you (lecture notes, homeworks, etc.) in these websites.

### **Topics of Discussion**

Topic 1: Overview and Introduction (Hindriks and Myles, ch 1)

Topic 2: Foundation (Hindriks and Myles, ch 2)

Topic 3: Information, taxation, and distortion (Hindriks and Myles, ch 13, 18)

Topic 4: Digression to demand theory

Topic 5: Taxation and labor supply

Topic 6: Welfare measurement

Topic 7: Taxation and excess burden (Rosen, ch 15)

Topic 8: Tax incidence (Rosen, ch 14; Hindriks and Myles, pp 268-277)

Topic 9: Equity considerations (Hindriks and Myles, ch 13)

Topic 10: Income taxation (Hindriks and Myles, ch 16)

Topic 11: Linear income taxation (Hindriks and Myles, ch 16)

Topic 12: Information, incentive compatibility, and taxation (Hindriks and Myles, chs 10, 18)

Topic 13: Commodity taxation (Hindriks and Myles, ch 15)

Topic 14: Intertemporal taxation (Hindriks and Myles, ch 22)

Topic 15: Tax evasion (Hindriks and Myles, ch 17)

Topic 16: Tax reform

Topic 17: Income distribution (Hindriks and Myles, ch 14, Cowell)

### **Applications to developing countries**

Topic 18: Taxation in developing countries

Topic 19: Dual economies

Topic 20: Land taxation