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Economics of Taxation

Fall 2018
TR 4:00-5:50
119 DKH

Office Hours: Tuesday 12:30-1:30.
Other times: By appointment.

Teaching Assistant: Tatiana Mocanu (mocanu2@illinois.edu).

Tatiana will have review sessions and will go over homework solutions Fridays 8:00 to 9:50 am, in 215B DKH. She also holds office hours on Mondays and Wednesdays from 10:00 to 11:30 am in Room 15 DKH. You can also ask her questions by email.

Readings: Main: Lecture notes to be posted **prior** to each lecture.

Others: Assigned as the course progresses; see also below.

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.

You are expected to attend all lectures and tutorials. You must also read the lecture notes prior to the lecture. This way, we will be able to spend more time on the material that you might find difficult and ask questions.

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 them and nothing else. I also believe in equal treatment. Which means everybody will have to take the same exam and at the same time.** The final will count for 50%, the midterm for 30%, and homeworks for 20% of your final grade. 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 which is not submitted by the due date will be considered as the dropped assignment. This is regardless of the reason and with no exception.

Lectures: Lecture notes will be posted **prior** to each lecture on the Compass course website <http://compass2g.illinois.edu>.

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

Midterm: Class time, date to be announced.

Final: To be announced when the Campus finalizes its exam schedule.

The exams are held in the regular classroom (119 DKH).

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. These activities are strictly prohibited and the distributed material are copy righted.

Topics of Discussion

Topic 1: Overview and Introduction

Topic 2: Foundation

Topic 3: Information, taxation, and distortion

Topic 4: Digression to demand theory

Topic 5: Taxation and labor supply

Topic 6: Welfare measurement

Topic 7: Taxation and excess burden

Topic 8: Tax incidence

Topic 9: Equity considerations

Topic 10: Income taxation

Topic 11: Commodity taxation

Topic 12: Tax reform

Topic 13: Tax evasion

Topic 14: Income distribution

Topic 15: Dynamics

Applications to developing countries

Topic 16: Taxation in developing countries

Topic 17: Dual economies

Topic 18: Land taxation

Useful textbooks and other sources:

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

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

J. Gruber, *Public Finance and Public Policy*, 5th Edition, Worth Publishers, New York, 2016.

J Hindriks and G Myles, *Intermediate Public Economics*, 2nd edition, the MIT Press, 2013.

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

Joel Slemrod and Jon Bakija, *Taxing Ourselves*, 5th 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.