

Rutgers University
Department of Economics
Economics 515: Public Economics
Spring 2008

Professors Altshuler and Sigman

Objectives

Professor Altshuler's part of the course covers the economics of taxation. The principal objective of this half of the course is to provide a working knowledge of modern theoretical and empirical techniques for investigating how taxes affect economic behavior and how tax policy should be designed.

Professor Sigman's part of the course covers the economics of externalities and public goods within the context of the environment. It will focus on the design and economic evaluation of environmental policies, with emphasis on econometric analyses of these issues.

Throughout, the course aims to teach you to think critically about the economics underlying public policies and to gain experience in identifying and answering research questions on these topics.

Background

To develop a good overview of the public economics field, students should have established a solid mastery of an advanced undergraduate text. Harvey S. Rosen, *Public Finance*, 7th edition, McGraw-Hill Publishers, is a good example and is highly recommended. Students should have read through it by the end of the semester. Another undergraduate text that is also recommended is Jonathan Gruber, *Public Finance and Public Policy*, 1st edition, Worth Publishers. For the second half of the course, an excellent text is Charles D. Kolstad, *Environmental Economics*, Oxford University Press, 2000. This text is at a fairly high level and should serve as a good background for many of the articles.

Meeting times

Class meets on **Mondays from 2:50 to 4:10 pm** and **Wednesdays from 11:30 am to 12:50 pm** in New Jersey Hall, room 101. The Empirical Microeconomics Workshop meets on **Fridays from 2:00 pm to 3:30 pm**. Attendance at the workshop is a complement to the course in terms of developing your skills as an active researcher and is strongly encouraged. Many of the papers in the Empirical Microeconomics Workshop papers will be directly related to the topics covered in class. The workshop schedule is posted on the department website.

Website

The course has a website at sakai.rutgers.edu. We will post updated reading lists and links to many of the readings there. It also has links to related resources elsewhere on the web.

Course Requirements

1. Final exam

The final exam will be held during finals week. The date for the exam will be arranged in class. You will be required to answer questions on the material presented by Professor Altshuler and by Professor Sigman.

2. Paper

The paper should be 12-14 pages and will be due on **April 30**. The paper must briefly identify and explore an unanswered problem in either taxation or environmental economics. The paper is essentially a research proposal. The paper should 1) state the research question, 2) explain how the question relates to other, resolved, questions and how it is different, 3) defend why the question is important enough to warrant attention, 4) review the existing literature on the topic, 4) sketch out a model that will allow you to answer the question, 5) identify what are likely to be the important theoretical and empirical problems to be overcome, 6) describe the data that could be used for analysis, and 6) write out the concluding paragraph. The hope is that this exercise will point you in a direction for thesis work.

A one to two page proposal for the paper will be due on **March 26**. The proposal should briefly describe the research question on the first page and list articles that you intend to use as references on the second page. We will give you detailed feedback on your proposal during the first week of April. Students will briefly present their papers (research proposals) during the last day of class (**May 5**).

Grading

The semester grade will be determined based on the paper (60%) and the final exam (40%).

Instructor information

Professor Altshuler

Office: 302 New Jersey Hall
Office hours: Mondays, 4:30 to 5:30 pm
Wednesdays, 3:00 to 4:00 pm
and by appointment
E-mail address: altshule@rci.rutgers.edu

Professor Sigman

Office: 419 New Jersey Hall
Office hours: By appointment
E-mail address: sigman@econ.rutgers.edu

Class schedule (tentative)

- Jan. 23 – Feb. 13 Professor Altshuler (Parts I through IV of reading list)
- Feb. 18 – Feb 27 Professor Sigman (Parts V through VI of reading list)
- March 3 Lecture: “Getting Started on Research in Applied Microeconomics” (Professors Altshuler and Sigman)
- March 5 - 12 Professor Altshuler (Part VII)
- March 17-19 Spring break
- March 24- April 21 Professor Sigman (Parts IX-XI)
- April 23- April 30 Professor Altshuler (Parts VIII)
- May 5 Student presentations
- Finals period Final exam (to be announced)

READING LIST

References

Very good graduate level texts include:

- A. Atkinson and J. Stiglitz, *Lectures in Public Economics*, (McGraw-Hill, 1980).
(Hereafter, "A&S.") Unfortunately this book is now out of print. I do have a few copies you can borrow.
- G. Myles, *Public Economics* (New York: Cambridge University Press, 1995).
- B. Salanié, *Economics of Taxation*, (Cambridge: MIT Press, 2002).
- W. Baumol and W. Oates, *The Theory of Environmental Policy, 2nd ed.* (New York: Cambridge University Press, 1988).

An important source of survey articles is:

- A. Auerbach and M. Feldstein, *Handbook of Public Economics*, volumes 1, 2, 3 and 4 (North-Holland). Many of these articles are available on the course website.

Other sources of review articles include:

- A. Auerbach, *Fiscal Policy: Lessons from Economic Research*, (MIT Press, 1997).
- A. Auerbach, *Public Finance*, Worth (1999).
- Reforming the Tax System for the 21st Century: The Mirrlees Review
(<http://www.ifs.org.uk/mirrleesreview/publications.php>)

A nice discussion of issues involved in tax reform is contained in:

- J. Slemrod and J. Bakija, *Taxing Ourselves: A Citizen's Guide to the Great Debate Over Tax Reform*, (MIT Press, 2004).
- The President's Advisory Panel on Federal Tax Reform. *Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System*. (Washington, DC: U.S. Government Printing Office, 2005). Available on the web at <http://www.taxreformpanel.gov/final-report/>

For background on environmental policies in practice:

P.R. Portney and R.N. Stavins, *Public Policies for Environmental Protection*, 2nd ed (Washington, DC: Resources for the Future, 2000).

References on empirical methods which you may find useful for this and other applied microeconomic courses include:

J. Angrist and A. Krueger, "Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments," *Journal of Economic Perspectives*, 15 (4) (2001), pp. 69-87.

M. Bertrand, E. Duflo et S. Mullainathan, "How Much Should we Trust Differences-in-Differences Estimates?," *Quarterly Journal of Economics* (2003).

E. Duflo, Empirical Methods, mimeo MIT, 2002. Available on the web at <http://www.jourdan.ens.fr/piketty/fichiers/enseig/econieg/articl/Duflo2002.pdf>

B. Meyer, "Natural and Quasi-Experiments in Economics," *Journal of Business and Economic Statistics*, 13(2), April 1995.

I. THE THEORY AND MEASUREMENT OF TAX INCIDENCE

A. Tax Incidence, Preliminaries and Overview

Rosen, chapter 12.

* D. Fullerton and G. Metcalf, "Tax Incidence," *Handbook of Public Economics*, vol. 4, Chapter 26.

B. Partial Equilibrium Tax Incidence

Salanié, chapter 1.

C. General Equilibrium Tax Incidence

Myles, chapter 8, pages 236-24.

A. Harberger, "The Incidence of the Corporation Income Tax", *Journal of Political Economy*, June 1962. (Reprinted in *Taxation and Welfare*, 1974.)

D. Bradford, "Factor Prices May be Constant but Factor Returns are Not," *Economic Letters*, 1(1978), 199-203.

C. Ballard, D. Fullerton, J. Shoven, and J. Whalley, *A General Equilibrium Model for Tax Policy Evaluation* (Chicago: University of Chicago Press, 1985). Chapters 2, 3.

* A. Auerbach, "Who Bears the Corporate Tax? A Review of What We Know" in J. Poterba, ed., *Tax Policy and the Economy* 20, 2006, 1-40.

J. Poterba, "Tax Subsidies to Owner-Occupied Housing: An Asset Market Approach," *Quarterly Journal of Economics* 99 (1984), 729-752.

D. Cutler, "Tax Reform and the Stock Market: An Asset Price Approach," *American Economic Review* 78 (December 1988), 1107-1117.

D. Life-Cycle Computations

* Poterba, J., "Lifetime Incidence and the Distributional Burden of Excise Taxes," *American Economic Review*, May 1989, pp. 325-330.

Fullerton, D., and D. Rogers, *Who Bears the Lifetime Tax Burden?*, Washington: Brookings Institution, 1993.

* A. Auerbach, J. Gokhale and L. Kotlikoff. "Generational Accounting: A Meaningful Way To Evaluate Fiscal Policy," *Journal of Economic Perspectives*, 1994, volume 8(1), 73-94.

A. Auerbach and L. Kotlikoff, "The Methodology of Generational Accounting" in A. Auerbach, L. Kotlikoff and L. Liebfriz, eds., *Generational Accounting Around the World*, (U. of Chicago Press, 1999), 31-41.

II. MEASURING EXCESS BURDEN

Rosen, chapter 13.

Salanié, chapter 2.

A. Auerbach, "The Theory of Excess Burden and Optimal Taxation," in *Handbook of Public Economics*, vol. 1, Section 2-8.

* A. Auerbach and J. Hines, "Taxation and Economic Efficiency," *Handbook of Public Economics*, vol. 3, Chapter 21; Sections 1-2.

D. Fullerton, "Reconciling Recent Estimates of the Marginal Welfare Cost of Taxation," *American Economic Review*, March 1991, pages 302-308.

* C. Ballard and D. Fullerton, "Distortionary Taxes and the Provision of Public Goods," *Journal of Economic Perspectives*, Summer 1992, pages 117-131.

L. Goulder and R. Williams, "The Substantial Bias from Ignoring General Equilibrium Effects in Estimating Excess Burden, and a Practical Solution," *Journal of Political Economy* 111 (2003), 898-927.

J. Hausman and W. Newey, "Nonparametric Measurement of Exact Consumers Surplus and Deadweight Loss," *Econometrica* 63 (1995), 1445-1476.

III. TAX REFORM: INCOME VERSUS CONSUMPTION TAXES

Rosen, chapter 19.

Slemrod and Bakija, chapters 6 and 7.

The President's Advisory Panel on Federal Tax Reform, chapter 7.

D. Bradford, *Blueprints for Basic Tax Reform* (Arlington, VA: Tax Analysts, 1984).

* A. Auerbach and L. Kotlikoff and J. Skinner (1983), "The Efficiency Gains from Dynamic Tax Reform," *International Economic Review*, February.

A. Auerbach and L. Kotlikoff, *Dynamic Fiscal Policy*, (Cambridge: Cambridge University Press, 1987), Chapters 5, 9.

* D. Altig, A. Auerbach, L. Kotlikoff, K. Smetters, and J. Walliser, "Simulating Fundamental Tax Reform in the United States," *American Economic Review* 91 (June 2001), 574-595.

* A. Auerbach, "The Choice Between Income and Consumption Taxes: A Primer," NBER Working Paper 12307, 2006.

D. Bradford, "The Choice between Income and Consumption Taxes," in D. Bradford (ed.), *Taxation, Wealth, and Saving*. (Cambridge, MA: MIT Press, 2000), pp. 41-63.

* Auerbach and Hines, Section 7.

IV. OPTIMAL TAXATION

A. Overview and introduction

Rosen, chapter 15.

Salanié, chapters 2-7.

* A. Auerbach, "The Theory of Excess Burden and Optimal Taxation," in *Handbook of Public Economics*, vol. 1.

N. Stern, "The Theory of Optimal Commodity and Income Taxation," in Newbery and Stern, eds., *The Theory of Taxation in Developing Countries*, (NY: Oxford University Press, 1987).

* J. Slemrod, "Optimal Taxation and Optimal Tax Systems," *Journal of Economic Perspectives*, Vol. 4, No. 1, Winter 1990.

B. Optimal Commodity Taxation

Myles, Chapter 4.

Salanié, chapter 3.

* Auerbach and Hines, section 3.

P. Diamond, "A Many-Person Ramsey Tax Rule," *Journal of Public Economics* 4 (1975), 335-342.

P. Diamond and J. Mirrlees, "Optimal Taxation and Public Production I: Production Efficiency," and "Optimal Taxation and Public Production II: Tax Rules," *American Economic Review* 61 (1971), 8-27 and 261-278.

C. Optimal Income Taxation

Myles, Chapter 5.

* Auerbach and Hines, section 4.

N. Stern, "On the Specification of Models of Optimum Income Taxation", *Journal of Public Economics*, July 1976.

* J. Slemrod et al, "The Optimal Two-Bracket Linear Income Tax," *Journal of Public Economics*, February 1994, 269-90.

* E. Saez, "Using Elasticities to Derive Optimal Income Tax Rates", *Review of*

Economic Studies, January 2001, 205-229.

V. MARKET FAILURES AND ENVIRONMENTAL POLICY

Kolstad, Ch 5

A. Externalities, Property Rights

Baumol and Oates, Ch 4

Kolstad, Ch 6

R.H. Coase, "The Problem of Social Cost," *Journal of Law and Economics* 3 (1960), 1-44.

R. Cooter, "The Cost of Coase," *Journal of Legal Studies*. 11 (1982), 1-33.

E. Keeler, M. Spence, and R. Zeckhauser, "The Optimal Control of Pollution," *Journal of Economic Theory* 4 (1971), 19-34.

B. Public Goods

A&S, pp. 482-497, 513-517

T. Bergstrom, L. Blume, and H. Varian. "On the Private Provision of Public Goods," *Journal of Public Economics* 29, no. 1 (February, 1986): 25-49.

J. C. Murdoch and T. Sandler, "The Voluntary Provision of a Pure Public Good: The Case of Reduced CFC Emissions and the Montreal Protocol." *Journal of Public Economics* 63 (1997), 331-349.

M. J. Kotchen and M.R. Moore. "Private Provision of Environmental Public Goods: Household Participation in Green-Electricity Programs." *Journal of Environmental Economics and Management* 53 (2007), 1-16.

VI. DESIGN OF ENVIRONMENTAL POLICY

Kolstad, Ch 9

A. Corrective Taxes

Baumol and Oates, Ch 14

A&S, pp. 451-4 (optimal tax context)

A. Sandmo, "Direct Versus Indirect Pigovian Taxation," *European Economic Review* 7, no. 4 (May, 1976): 337-349.

I.W.H. Parry and K.A. Small, "Does Britain or the United States have the Right Gas Tax?" *American Economic Review*, 95 (2005), 1276

A. Shah and B. Larsen, "Carbon Taxes, the Greenhouse Effect, and Developing Countries," Policy Research Working Paper Series 957, The World Bank, 1992.

D. Fullerton and T. C. Kinnaman, "Garbage, Recycling, and Illicit Burning or Dumping," *Journal of Environmental Economics and Management* 29 (1995), 78--91.

B. Environmental markets

*T.H. Tietenberg, "Tradable Permits for Pollution Control when Emission Location Matters: What have we Learned?" *Environmental and Resource Economics*, 5(2):95-113.

C. Carlson et al. "Sulfur Dioxide Control by Electric Utilities: What are the Gains from Trade?" *Journal of Political Economy* 108, no. 6 (December, 2000): 1292-1326.

A.D. Ellerman and B.K. Buchner. "The European Union Emissions Trading Scheme: Origins, Allocation, and Early Results." *Review of Environmental Economics and Policy* 1, no. 1 (Winter, 2007): 66-87.

A.D. Ellerman, "Designing a Tradable Permit System to Control SO₂ Emissions in China: Principles and Practice." *Energy Journal* 23 no 2 (2002): 1-26

*D. Burtraw et al. "Economics of Pollution Trading for SO₂ and NO_x." Resources for the Future Discussion Paper, 2005

C. Policy design with uncertainty

*Kolstad, Ch 10

M. Weitzman, "Prices vs. quantities," *Review of Economic Studies* 41 (1974), 477-91.

M.J. Roberts and M. Spence. Effluent charges and licenses under uncertainty, *Journal of Public Economics* 5 (1976), 193-208.

R. Newell and W.A. Pizer. Regulating stock externalities under uncertainty. *Journal of Environmental Economics and Management* 45, 2S (2003): 416-32.

W.A. Pizer. The Optimal choice of climate change policy in the presence of uncertainty.
Resource and Energy Economics 21, no. 3-4 (1999/8): 255-87.

D. Second-best public policies

Kolstad, pp. 281-284

Myles, pp. pp. 291-294 or Atkinson-Stiglitz, pp. 490-494

A.L. Bovenberg and L.H. Goulder “Environmental taxation and regulation” in Auerbach and Feldstein, *Handbook of Public Economics* (but also NBER working paper 8458 for free...)

C. L. Ballard and D. Fullerton. Distortionary taxes and the provision of public goods, *Journal of Economic Perspectives*, 6 (3) (1992), 117-131.

L. Kaplow. On the (ir)relevance of distribution and labor supply distortion to government policy.
Journal of Economic Perspectives 18 (4), (2004): 159-75.

E. Liability as environmental policy

Kolstad, pp. 229-240

S. Shavell, “A model of the optimal use of liability and safety regulation,” *RAND Journal of Economics*, 15 (1984) 271-80.

A. Alberini and D. Austin, “Accidents waiting to happen: Liability policy and toxic pollution releases,” *Review of Economics and Statistics*, 84 no. 2 (2000): 729–41

VII. HOW TAXES AFFECT INDIVIDUAL BEHAVIOR: MODELS AND EMPIRICAL EVIDENCE

A. Overview

R. Triest, "Econometric Issues in Estimating the Behavioral Response to Taxation: A Nontechnical Introduction," *National Tax Journal*, 51 No. 4 (December, 1998): 761-72.

B. Savings and Portfolio Choice

Rosen, chapters 16 and 17.

* D. Bernheim, “Taxation and Saving,” *Handbook of Public Economics*, vol. 3, Chapter 18; Sections 2-3.

* J. Poterba, "Taxation, Risk-Taking, and Household Portfolio Behavior," *Handbook of Public Economics*, vol. 3, chapter 17.

B. Bucks, A. Kennickell, and K. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," *Federal Reserve Bulletin* 92 (January 2006), 1-38

M. Boskin, "Taxation, Saving, and the Rate of Interest", *Journal of Political Economy*, part 2, April 1978.

* M. Feldstein, "The Welfare Cost of Capital Income Taxation," *Journal of Political Economy*, April 1978.

* L. Summers, "Capital Taxation and Accumulation in a Life Cycle Growth Model," *American Economic Review* 71, September 1981, 533-544.

* L. Summers, "The After-Tax Rate of Return Affects Private Savings," *American Economic Review* 74, May 1984, 249-253.

R. Gordon, "Taxation of Investment and Savings in a World Economy," *American Economic Review*, 76, 1986, pp. 1086-1102.

C. Targeted Tax Subsidies to Savings

E. Duflo, W. Gale, J. Liebman, P. Orszag, and E. Saez, "Saving Incentives for Low and Middle-Income Families: Evidence from a Field Experiment with H&R Block," *The Quarterly Journal of Economics*, MIT Press, vol. 121(4), pages 1311-1346, November.

E. Duflo and E. Saez, "Participation and Investment Decisions in a Retirement Plan: The Influence of Colleagues' Choices," *Journal of Public Economics* 85 (July 2002), 121-148.

E. Engen, W. Gale, and J. Scholz, "Do Saving Incentives Work?," *Brookings Papers on Economic Activity* 1994:2, 85-180.

* E. Engen, W. Gale, and J. Scholz, "The Illusory Effects of Saving Incentives," *Journal of Economic Perspectives* 10 (Fall 1996), 113-138.

W. Gale, J. M. Iwry, and P. Orszag, "The Automatic 401(k)," mimeo, Brookings Institution, 2005.

W. Gale and J. Scholz, "IRAs and Household Saving," *American Economic Review* 84

(December 1994), 1233-1260.

W. Gale, "The Effects of Pensions on Household Wealth: A Re-Evaluation of Theory and Evidence," *Journal of Political Economy* 106 (August 1998), 706-723.

*B. Madrian and D. Shea, "The Power of Suggestion: Inertia in 401(k) Participation and Saving Behavior," *Quarterly Journal of Economics* 116 (November 2001), 1149-1187.

K. Milligan, "How Do Contribution Limits Affect Contributions to Tax-Preferred Saving Accounts?," *Journal of Public Economics* 87 (February 2003), 253-282.

J. Poterba, S. Venti, and D. Wise, "Do 401(k) Contributions Crowd Out Other Personal Saving?," *Journal of Public Economics* 58 (September 1995), 1-32.

* J. Poterba, S. Venti, and D. Wise, "How Retirement Saving Programs Increase Saving," *Journal of Economic Perspectives* 10 (Fall 1996), 91-112.

J. Poterba, S. Venti, and D. Wise, "The Transition to Personal Accounts and Increasing Retirement Wealth: Micro and Macro Evidence," in D. Wise, ed., *Perspectives on the Economics of Aging* (Chicago: University of Chicago Press, 2004).

D. Capital Gains, Timing Effects and Income Shifting

J. Stiglitz, "Some Aspects of the Taxation of Capital Gains", *Journal of Public Economics*, 1983, pp. 257-294.

J. Poterba, "How Burdensome are Capital Gains Taxes?" *Journal of Public Economics*, Vol. 33, No. 2, pp. 157-172.

A. Auerbach, "Capital Gains Taxation in the United States: Realizations, Revenue, and Rhetoric," *Brookings Papers on Economic Activity*, Number 2, 1988.

G. Auten and J. Cordes, "Policy Watch: Cutting Capital Gains Taxes," *Journal of Economic Perspectives*, Winter 1991, pp. 181-192.

A. Auerbach, "Retrospective Capital Gains Taxation," *American Economic Review*, March 1991, pp. 167-178.

* L. Burman and W. Randolph, "Distinguishing Permanent from Transitory Effects of Capital Gains Tax Changes: New Evidence from Micro Data," *American Economic Review*, Volume 84, 794-809, 1994.

- A. Auerbach and J. Siegel, "Capital Gains Realizations of the Rich and Sophisticated," *American Economic Review*, May 2000, 276-282.
- A. Goolsbee, "What Happens When You Tax the Rich? Evidence from Executive Compensation," *Journal of Political Economy*, 108 No. 2 (April, 2000): 352-78.
- A. Goolsbee, "It's Not About the Money: Why Natural Experiments Don't Work on the Rich," in J. Slemrod (ed.), *Does Atlas Shrug? The Economic Consequences of Taxing the Rich*, (Cambridge and New York: Harvard University Press and the Russell Sage Foundation, 2000) pp. 141-58.
- * R. Gordon and J. Slemrod, "Are 'Real' Responses to Taxes Simply Income Shifting Between Corporate and Personal Tax Bases?" in J. Slemrod (ed.), *Does Atlas Shrug? The Economic Consequences of Taxing the Rich*, (Cambridge and New York: Harvard University Press and the Russell Sage Foundation, 2000) pp. 240-80.

E. Labor Supply

- J. Hausman, "Labor Supply," in H. Aaron and J. Pechman (eds.), *How Taxes Affect Economic Behavior* (Washington, D.C.: The Brookings Institution, 1981) pp. 27-83.
- N. Eissa, "Tax Reforms and Labor Supply," in J. Poterba, (ed.), *Tax Policy and the Economy*, Vol. 10 (Cambridge, MA: MIT Press, 1996) pp. 119-51.
- R. Blundell, A. Duncan, and C. Meghir, "Estimating Labor Supply Responses Using Tax Reforms," *Econometrica*, 66 No. 4 (July, 1998): 827-61.
- R. Blundell and T. MaCurdy, "Labor Supply: A Review of Alternative Approaches," in A. Ashenfelter and D. Card (eds.), *Handbook of Labor Economics*, Vol. 3A (Amsterdam: North-Holland, 1999): 1559-1695.
- R. Moffitt and M. Wilhelm, "Taxation and the Labor Supply Decisions of the Affluent," in J. Slemrod (ed.), *Does Atlas Shrug? The Economic Consequences of Taxing the Rich* (Cambridge and New York: Harvard University Press and the Russell Sage Foundation, 2000) pp. 193-234.
- J. Ziliak and T. Kniesner, Evidence of Tax-Induced Individual Behavioral Responses, mimeo.
- N. Eissa, "Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment," NBER Working Paper 5023, 1995.
- N. Eissa and J. Liebman, "Labor Supply Response to the Earned Income Tax Credit," *Quarterly Journal of Economics*, 111 No. 2 (May, 1996): 605-37.

R. Triest, "Fundamental Tax Reform and Labor Supply," in H. Aaron and W. Gale (eds.), *Economic Effects of Fundamental Tax Reform* (Washington, D.C.: Brookings Institution Press, 1996) pp. 247-78.

F. Charity

D. Feenberg, "Are Tax Price Models Really Identified: The Case of Charitable Giving," *National Tax Journal*, 40 No. 4 (December 1987): 629-33.

W. Randolph, "Dynamic Income, Progressive Taxes, and the Timing of Charitable Contributions," *Journal of Political Economy*, 103 No. 4 (August, 1995): 709-38.

G. The Elasticity of Taxable Income

D. Feenberg and J. Poterba, "Income Inequality and the Incomes of Very High Income Taxpayers," in J. Poterba (ed.), *Tax Policy and the Economy*, Vol. 7, (Cambridge, MA: MIT Press, 1993) pp. 145-77.

J. Slemrod, "High-Income Families and the Tax Changes of the 1980s: The Anatomy of Behavioral Response", in M. Feldstein and J. Poterba (eds.), *Empirical Foundations of Household Taxation* (Chicago: University of Chicago Press, 1996) pp. 169-89.

* M. Feldstein, "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act," *Journal of Political Economy*, 103 No. 3 (June, 1995): 551-72.

* J. Slemrod, "Methodological Issues in Measuring and Interpreting Taxable Income Elasticities," *National Tax Journal*, 51 No. 4 (December, 1998): 773-88.

* J. Gruber and E. Saez, "The Elasticity of Taxable Income: Evidence and Implications," *Journal of Public Economics*, 84 No. 1 (April, 2002): 1-32.

A. Goolsbee, "Evidence on the High-Income Laffer Curve from Six Decades of Tax Reform," *Brookings Papers on Economic Activity*, Vol. 2 (1999): 1-64.

W. Kopczuk, "Tax Bases, Tax Rates and the Elasticity of Reported Income," *Journal of Public Economics* 89, December 2005, 2093-2119.

VIII. HOW TAXES AFFECT BUSINESS BEHAVIOR: MODELS AND EMPIRICAL EVIDENCE

A. Overview

J. Mintz, "The Corporation Tax," in M. P. Devereux (ed.), *The Economics of Tax Policy* (Oxford: Oxford University Press, 1996) pp. 137-87.

Rosen, chapter 18.

A. Auerbach, "Taxation, Corporate Financial Policy, and the Cost of Capital", *Journal of Economic Literature*, September 1983.

* A. Auerbach, "The Tax Reform Act of 1986 and the Cost of Capital," *Journal of Economic Perspectives*," 1987, pp. 73-86.

B. Investment

J. Stiglitz, "Taxation, Corporate Financial Policy, and the Cost of Capital", *Journal of Public Economics*, February 1973.

L. Summers, "Investment, Taxation, and Q," *Brookings Papers on Economic Activity* 1: 1981, 67-127.

A. Auerbach and K. Hassett, "Recent U.S. Investment Behavior and the Tax Reform Act of 1986: A Disaggregate View," *Carnegie-Rochester Conference Series on Public Policy* 35 (1991), 185-215.

A. Auerbach and K. Hassett, "Tax Policy and Business Fixed Investment in the U.S.," *Journal of Public Economics*, February 1992.

J. Cummins, K. Hassett and R.G. Hubbard, "A Reconsideration of Investment Behavior Using Tax Reforms as Natural Experiments," *Brookings Papers on Economic Activity*, 1994, No.2, 1-59.

* A. Auerbach, "Tax Reform and Adjustment Costs: The Impact on Investment and Market Value," *International Economic Review*, November 1989, 939-962.

* K. Hassett and G. Hubbard, "Tax Policy and Business Investment," *Handbook of Public Economics*, vol. 3, Chapter 20.

M. Desai and A. Goolsbee, "Investment, Overhang and Tax Policy," *Brookings Papers on Economic Activity*, 2004:2, 285-355.

C. Corporate Financial Policy

- * A. Auerbach, "Wealth Maximization and the Cost of Capital," *Quarterly Journal of Economics*, 1979, pp. 433-446.
- J. Poterba and L. Summers, "The Economic Effects of Dividend Taxation," in E. Altman and M. Subrahmanyam (eds.), *Recent Advances in Corporation Finance* (Homewood, IL: Dow Jones-Irwin), 1985, pp. 227-284.
- * A. Auerbach, "Taxation and Corporate Financial Policy," *Handbook of Public Economics*, vol. 3, Chapter 19.
- A. Auerbach and Mervyn King, "Taxation, Portfolio Choice, and Debt-Equity Ratios: A General Equilibrium Model," *Quarterly Journal of Economics*, November 1983, 587-609.
- A. Auerbach and Kevin Hassett, "On the Marginal Source of Investment Funds," *Journal of Public Economics*, January 2003, 205-232.
- R. Chetty and E. Saez, "Dividend Taxes and Corporate Behavior: Evidence from the 2003 Dividend Tax Cut," *Quarterly Journal of Economics*, August 2005, 791-833.
- G. Zodrow, "On the 'Traditional' and 'New' Views of Dividend Taxation," *National Tax Journal*, 44 No. 4 Part 2 (December, 1991): 497-509.
- M. Miller, "Debt and Taxes," *Journal of Finance*, 1977, pp. 261-275.
- J. MacKie-Mason, "Do Taxes Affect Corporate Financing Decisions?" *Journal of Finance*, December 1990.
- D. International tax and tax competition**
- D. Hartman, "Tax Policy and Foreign Direct Investment," *Journal of Public Economics*, 26, 1985, pp. 107-121.
- M. Feldstein and David Hartman, "The Optimal Taxation of Foreign-Source Investment," *Quarterly Journal of Economics*, November 1979, 613-629.
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