

Spring 2011
MW 3:00-4:50
DKH 209

Economics of Taxation
Econ 512 M

Firouz Gahvari
225D DKH
205D DKH (333-7651)

Office Hours: Mondays and Wednesdays 2:00-3:00.
Other times by appointment.

Readings: Class notes available at <https://netfiles.uiuc.edu/fgahvari/www/>

Other readings (at Reserve Desk, Business and Economics Library):

Jean Hindriks and Gareth Myles (HM), *Intermediate Public Economics*, the MIT Press, 2006.

Jonathan Gruber, *Public Finance and Public Policy*, 2nd ed., Worth Publishers, 2007.

Joel Slemrod and Jon Bakija (SB), *Taxing Ourselves*, fourth edition, the MIT Press, 2008.

David Newbery and Nicholas Stern (NS), 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.

Teaching Assistant: Micah Pollak (mpollak2@illinois.edu).

Micah will hold office hours in 205A DKH on Tuesdays and Thursdays from 9:00 a.m. to 10:00 p.m. You can also ask him questions or make an appointment by email.

This course applies economic analysis to study the positive and normative aspects of different tax policies with some emphasis to developing economies. We will study various topics in modern tax theory including incidence, incentive effects of different tax structures, economics inequality, theory of optimal taxation, tax evasion, tax reform, and tax competition. We will apply the lessons learned to developing economies and examine if any aspects of it need to be reformulated.

As the course progresses, you will be expected to be following the corresponding material in the readings. It should be noted, however, that not all the class topics are covered fully there. It is highly recommended that you attend all the lectures and pay close attention to class discussions.

If you find something incomprehensible, do not hesitate to ask me either after the lecture or in my office. Under no circumstances, wait until the exam or, worse still, sweep it under the rug.

Course Grade: There will be several homeworks, one midterm, and a final. Course grades will be determined solely by performance in these dimensions: Homeworks count for 30%, the midterm for 30% and the final for 40% of your final grade.

Homeworks: The homework assignments will be available on the Compass course website – <http://compass.uiuc.edu>. They will be assigned as the course progresses; their due dates will be announced accordingly in class.

Midterm: Class time, date to be announced.

Final: Regular exam period: 8:00-11:00 am, Friday, May 8, 2011.

The exams are held in the regular classroom (209 DKH).

Topics of Discussion and Essential Readings

Topic 1: Overview

HM: chs 1, 3.

NS: ch 7.

Shome: pp 3--24.

SB: chs 1, 2.

Gruber: ch 1, 18.

Topic 2: Taxation, incentives and labor supply

HM: ch 15, pp 477--486.

Gruber: ch 21.

Topic 3: Efficiency and excess burden

HM: ch 2.

Shome: pp 25--29.

Gruber: ch 2.

Topic 4: Tax incidence

Shome: pp 35--45, 59--61.

Gruber: ch 19.

Topic 5: Equity

HM: ch 12.

Shome: pp 30--34.

SB: ch 3.
Gruber: ch 19.

Topic 6: Optimal income taxation

HM: ch 15.
Newbery and Stern: ch 2.
Shome: pp 117--133.
Gruber: ch 20.

Topic 7: Optimal commodity taxes

HM: ch 14.
Newbery and Stern: ch 2.
Shome: pp 71--74.
Gruber: ch 20.

Topic 8: Tax avoidance

HM: ch 16.
SB: ch 5.
Gruber: ch 25.
Frank A. Cowell, 1990, *Cheating the Government: The Economics of Evasion*, MIT Press.
Friedrich Schneider and Dominik Enste, 2000, "Shadow Economies: Size, Causes, and Consequences", *Journal of Economic Literature*, 38, 77-114.
Vito Tanzi, 1998, "Corruption Around the World: Causes, consequences, Scopes and Cures", *IMF Staff papers*, 45, 559-594.
Vito Tanzi, 1999, "Uses and Abuses of Estimates of the Underground Economy", *Economic Journal*, 109, F338-F347.

Topic 9: Economic inequality

HM: ch 13.
SB: ch 3.
Gruber: ch 17.
Frank A. Cowell, 1995, *Measuring Inequality*, Second edition, (Prentice Hall).

Topic 10: Fiscal competition

HM: ch 18.