Course Description
Taxes are half of what government does. So if you are interested in what government policy can
 do to promote efficiency, equity, and economic development, you should be interested in tax
 policy. Governments must raise tax revenue to finance critical public goods, address other
 market failures and distributional issues, and to avoid problems with debt and inflation. Taxes
typically take up anywhere from ten to fifty percent of a country’s income, they profoundly
affect the incentives to undertake all varieties of economic activity, and the government
expenditures that they finance have potentially large consequences for human welfare. So the
stakes involved in improving tax policy are quite large. All of these issues are of great
importance in developing and transitional countries (also known as “emerging markets”), but in
these nations taxation is especially challenging because of serious problems with tax evasion
and administration, among other things. This class provides an in-depth exploration of tax
policy, with an emphasis on the challenges and issues most relevant in emerging markets.
Topics addressed in this class include: how basic economic principles can be applied to help one
think about the efficiency and equity consequences of tax policies; evidence on economic
inequality and the degree to which tax and transfer policies affect it; how the value-added tax,
taxes on land and property, personal income taxes, and corporate income taxes are designed
and administered and how they influence the economy; how various elements of tax design
affect incentives to save and invest; ideas for fundamental reforms of these taxes; the
implications of global capital flows and corporate tax avoidance for the design of tax policy; tax
holidays and other special tax incentives for investment; empirical evidence on the influence of
taxes on economic growth, foreign direct investment, labor supply, and tax evasion; theory and
evidence in the debate over progressive taxes versus “flat” taxes; case studies of tax
administration reform; the “informal sector” and its implications for tax policy; presumptive
taxation; and taxation of natural resource wealth.

Course Materials
There will be a limited amount of reading from a textbook for the course, Public Finance and
Public Policy by Jon Gruber (any edition is fine). CDE fellows already have this book from the
fall semester. Undergrads can buy the textbook at Water Street Books; since we are using a
relatively small portion of the textbook this semester, let me know if it is a financial hardship, as
I have a limited number of old editions that I can lend out. All readings for the course except
those from Gruber’s textbook will be posted electronically on Glow and made available in
printed course reading packets. The first reading packet is available now in the reading packet room.

Course Requirements

- **Class participation (10% of the grade).** You are expected to come to class having done the assigned readings in advance, and be prepared to discuss questions about the reading. I may call on particular people to ask you to contribute.

- **Three or four homework assignments before the midterm (10% of the grade).** I will drop the lowest homework grade from your grade calculation. Late homework will not be accepted.

- **Midterm exam (40% of the grade).** The midterm exam will be held on Tuesday April 15th from 7:00pm to 9:30pm in Hopkins 001, to make sure you have plenty of time to complete the exam. Undergrads with a schedule conflict should contact me as soon as possible so that you can make arrangements with me to take the exam at an alternate time.

- **Two essays, approximately 8 pages each (40% of the grade).** These writing assignments will ask you to engage with the readings in the second half of the course, for example by making an argument for a particular side of a tax policy debate, comparing, contrasting and synthesizing arguments and evidence from multiple required readings; or by critically evaluating an assigned reading that performs an econometric analysis relevant to tax policy. The first of these essays will be due Friday May 2 at 4:00pm. The due date for the second essay is during exam period, on Thursday May 22 at 4:00pm. Further information on the writing assignments will be provided later in the term.

- **There is no final exam for the course.**

**Course web page**
The course web page is available through the site: [http://glow.williams.edu](http://glow.williams.edu)

**Honor code**
All of the usual Williams honor code rules apply in this course. Your writing assignments should follow the Chicago author-date method of citation, and any words that are not your own must be enclosed in quotation marks and cited. For further details see: [http://web.williams.edu/wp-etc/acad-resources/survival_guide/CitingDoc/CitingContents.php](http://web.williams.edu/wp-etc/acad-resources/survival_guide/CitingDoc/CitingContents.php). Working on the homework assignments in groups is encouraged. However, if you work out an answer as part of a study group, be sure you understand exactly how to arrive at the answer. You must write up the answer to the problem on your own, in your own words, and of course you must each turn in your own individual problem set. Turning in an identical problem set answer to a classmate is a violation of the honor code.

**Teaching Assistant**
The teaching assistant for the course is Carson Eisenach <carson.m.eisenach@williams.edu>, a senior who took this course two years ago. He will grade your homework assignments, and will run a review session before each homework is due.
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<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Readings</th>
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<tbody>
<tr>
<td>Feb 5</td>
<td>analysis</td>
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<td>Feb 10</td>
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<td>Feb 13</td>
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<td>Feb 17</td>
<td>efficiency</td>
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| 9 Mar 6    | Thu  | Income taxation 1                               | • Gruber Ch. 18, Section 18.3 ("Measuring the Fairness of Tax Systems") only.  
• Gruber Ch. 22, Section 22.1 portion on "Inflation and the Taxation of Savings" only.  
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   |     |       |  Gruber Ch. 24, “Corporate Taxation.” Introduction and sections 24.1, 24.2, and 24.5 only.  
   |     |       |  Gruber, “Differences between Savers and Non-Savers.” (Ch. 25, pp. 760-761 in 4th ed.; not present in earlier editions, so a copy is included in the printed reading packet). |
| 12   | Mon | How taxes affect incentives to invest |  Bakija, Jon. 2011. “How Taxes Affect Incentives to Invest” |
| 14   | Mon | Taxation of multinational corporations: tax rules and avoidance schemes |  Gruber, Ch. 24, Section 24.6, "Treatment of International Corporate Income."  
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<td>Sunday April 13, 11:00am, CDE Classroom</td>
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<td>Optional review session for midterm exam</td>
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<td>15 Tue</td>
<td>Apr</td>
<td>Evening midterm exam</td>
<td>7:00pm – 9:30pm, Hopkins 001. [Undergrads with a schedule conflict should contact me as soon as possible to schedule an alternative time to take the exam.]</td>
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</tbody>
</table>
| 19 Thu | Apr   | Taxation of natural resource wealth                                   | • Collier, Paul. 2010. “Capturing Natural Assets” Ch. 5 from The Plundered Planet. Oxford University Press.  
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<th>Date</th>
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<th>Topic</th>
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Journal of Political Economy 117, no. 3 [Excerpt, pp. 504-536, 542-544 and 546-547.]  
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<tr>
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<tr>
<td>Thu May 15</td>
<td>Class cancelled in exchange for evening midterm exam back on April 15th</td>
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<tr>
<td>Thu May 22</td>
<td>4:00pm: Essay #2 due</td>
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