



College of Commerce
Division of Economic and Financial Studies

UNIT OUTLINE

ECON211: TAXATION ECONOMICS AND POLICY

Semester 2, 2004

**Glenn Jones
Unit convenor**

ECON211 TAXATION ECONOMICS AND POLICY

1. ABOUT THIS UNIT

The course ECON211 Taxation Economics and Policy is a course in theoretical and applied public economics focusing on the analysis of taxation.

The economic foundation for taxation policy is closely related to that underlying expenditure policy but the scale of the literature is such that it is appropriate to treat the two sections of Public Economics in two separate units. The companion unit to ECON211 is ECON210 Public Economics. Both of these units have ECON200 Microeconomic Analysis as a prerequisite.

The course places strong emphasis on developing analytical and theoretical skills as a means of encouraging rigorous and logical thinking about the analysis and design of tax systems.

2. TEACHING STAFF

Glenn Jones (unit convenor)
Consultation hours: Wednesday 2.00 – 6.00
Room: C5C 391
Phone: 9850 8500
Email: glenn.jones@mq.edu.au

3. LECTURES

The lectures will be given:

Wednesday 10.00 – 12.00 C5A301

During the semester, any changes will be announced as far as possible in advance.

4. TUTORIALS

Two tutorial times have been scheduled:

Wednesday 12.00 E5A116
Wednesday 14.00 C5A226

The number of tutorials offered each week will depend on enrolment in the unit.

The tutorial program in ECON211 aims to explain and extend some of the material covered in lectures and to allow an opportunity for an in depth discussion of a particular aspect of the course.

The tutorials will not be held every week. There will be eight tutorials in the semester. Tutorials will count towards 10% of the total grade in the unit.

5. ASSESSMENT

The components of assessment in this course are as follows:

	%
Mid-semester Test 1	15
Mid-semester Test 2	15
Tutorials	10
Exam	60
Total	100

The two mid-semester tests will be of short answer format. They will each be of one hour's duration and will take place in the tutorial time and room in the weeks indicated in the course diary. The tests will examine the subject matter of the first three lectures and second five lectures respectively

It is a requirement that to pass the unit, students must pass the final examination.

Students are reminded of University rules governing requests for special consideration when illness, misadventure or other cause prevents attendance at tutorials, affects the submission of work or impairs performance in examinations.

Please submit requests for special consideration for within semester assessment directly to the lecturer, not to the Registrar. Requests for special consideration for the final examination must be submitted to the Registrar.

6. UNIT WEB PAGE:

<http://www.econ.mq.edu.au/courses/econ211/index.htm>

7. COURSE DIARY 2004

WEEK	DATE	LECTURE TOPIC	TUTORIAL
1	August 4	Introduction	
2	August 11	Tax incidence	Tutorial 1
3	August 18	Labour supply & saving with taxation	Tutorial 2
4	August 25	Measuring welfare effects of taxation	Test 1
5	September 1	Normative analysis and social welfare	Tutorial 3
6	September 8	Inequality and poverty	Tutorial 4
7	September 15	Taxation and welfare programs	Tutorial 5
MID SEMESTER BREAK			
8	October 6	Optimal income taxation	
9	October 13	Optimal commodity taxation	Test 2
10	October 20	Taxation of income or expenditure: saving and social insurance	Tutorial 6
11	October 27	Income tax extensions : capital taxation, risk and tax evasion	Tutorial 7
12	November 3	Corporation tax	Tutorial 8
13	November 10	Fiscal federalism	

7. TEXT AND REFERENCES

The recommended text, ordered at the bookshop is:

Abelson, P.W. (2002) *Lectures in Public Economics*, (3rd Ed) Sydney, Applied Economics

However there are other texts covering similar material and references to these texts will be given where appropriate:

Stiglitz, J.E. (2000) *Economics of the Public Sector*, (3rd Ed) New York, Norton.

Rosen, H.S., (2002) *Public Finance*, (6th Ed) New York, McGraw-Hill

Texts dealing with the subject at a greater level of detail are:

Atkinson, A.B. and J.E. Stiglitz (1980) *Lectures in Public Economics*, New York, McGraw-Hill

Brown, C.V. and P.M. Jackson (1986) *Public Sector Economics*, Oxford, Basil Blackwell.

Hillman, A.L., (2003), *Public Finance and Public Policy*. Cambridge, Cambridge University Press.

Jha, R. (1998) *Modern Public Economics*. London, Routledge.

Myles, G. D. (1995) *Public Economics*, Cambridge, Cambridge University Press.

Tresch, R. W. (2002) *Public Finance: a normative theory*, (2nd Ed), San Diego, Elsevier, Academic Press

A useful but difficult to find text is:

Boadway, R.W. and D.E. Wildasin (1984) *Public Sector Economics*, Toronto, Little, Brown.

8. LECTURE OUTLINE

Lecture 1 Introduction

Scope and framework of public economics
Institutional description of the Australian tax system
Revision of assumed microeconomics
 Optimisation with taxes
 Income and substitution effects
 Extension: Slutsky equation

Abelson: Chapter 1
Stiglitz: Chapter 17
Stiglitz: Chapter 19, pp 518 - 521
Rosen: appendix p 507
Brown and Jackson: Chapter 1

Lecture 2 Tax incidence

Basic competitive tax incidence
 Unit and ad valorem taxes
Shifting taxes to factors
 Marshall's rules
Non- competitive tax incidence

Abelson: Chapter 19
Stiglitz: Chapter 18
Rosen: Chapter 12
Brown: and Jackson Chapters 10 and 11

Lecture 3 Labour supply and savings with taxes

Labour supply
 Budget constraint with income taxes
 Laffer curve and revenue
Inter-temporal consumption
Tax equivalence
 Consumption taxes
 Labour income taxes
 Expenditure taxes
 Income taxes

Abelson: Chapter 19
Stiglitz: Chapter 19, pp 535 - 547
Stiglitz: Chapter 25, p 699
Stiglitz: Chapter 19, pp 532 - 534
Stiglitz: Chapter 18 pp 502 - 505
Rosen: Chapter 16
Brown and Jackson: Chapter 10
Atkinson & Stiglitz: Chapters 2 and 3 pp 62 - 85

Lecture 4 Measuring welfare effects of taxation

Compensated demand functions
Measures of Welfare Change
 Laspeyres
 Equivalent gain
 Weighted or Unweighted Aggregation
Efficiency
 Excess Burden (Dead Weight Loss or Efficiency Cost)
 Revenue neutrality
 Lump sum comparisons
Extension :Duality
 Indirect utility function
 Expenditure function
 Marginal utility of income

Abelson: Chapters 6 and 20

Stiglitz: Chapter 5, pp 107 - 112

Stiglitz: Chapter 19, pp 521 - 532

Rosen: Chapter 13

Moffit, R (1992), Incentive effects of the US welfare system: a review. Journal of Economic Literature, 31, 1-61

Lecture 5 Normative analysis and social welfare

Interpersonal welfare comparisons
Measures of Welfare Level
 Preferences and utility functions
 Measured money income
 Endowments: full and potential income
 Equivalent Income
Data and Measurement problems
Efficiency
Pareto Improvements and Potential Pareto Improvements
First Theorem of Welfare Economics
Social welfare functions
Second Theorem of Welfare Economics
Theory of Second Best
Fallacy of counting distortions

Abelson: Chapters 3, 6 and 23

Stiglitz: Chapter 3

Stiglitz: Chapter 5

Stiglitz: Chapter 17, pp 468 - 479

Rosen: Chapter 3

Atkinson and Stiglitz: Chapter. 11

Brown and Jackson: Chapters 1, 12 and 13, pp 297 – 299

King, M. A., (1983) *Welfare Analysis of Tax Reforms Using Household Data*,
Journal of Public Economics, 21, 183 - 214.

Lecture 6 Inequality and poverty.

Welfare measurement

Vertical equity

Inequality

Decile analysis

Lorenz curve

Gini coefficient

Atkinson/Kolm measure

Poverty

Absolute/relative

Poverty line

Headcount ratio

Horizontal equity

Spearman rank correlation

King measure

Equivalence scales

Abelson: Chapters 23

Stiglitz: Chapter 20, pp 550 - 562

Rosen: Chapter 9, Chapter 17 and 16, pp 363 – 366.

Brown and Jackson: Chapters 14, 15, pp 318 - 319

Australian Bureau of Statistics, (2001), Income Distribution Australia, 1999 – 2000, Cat No 6523.0, AGPS Canberra

Lecture 7 Income Taxation and welfare programs.

Direct and indirect taxes

Progressive, proportional and regressive taxes

Taxation and labour supply

Participation

Means testing benefits

Tax unit Individual or Household

Effective marginal tax rates

Abelson: Chapters 24 and 26

Stiglitz: Chapter 15

Rosen Chapters 8 and 15

Whiteford, P. and G. Angenent, (2002), The Australian system of social protection – an overview, Occasional Paper NO 6, Dept Family and Community Services Canberra.

Lecture 8 Optimal income taxation.

Simple linear income tax
Non-linear possibilities
Empirical estimates

Abelson: Chapter 21
Stiglitz: Chapter 20, pp 550 – 562.
Rosen: Chapter 14
Brown and Jackson: Chapter 20.
Atkinson and Stiglitz: Chapters 13 and 14.

Dixit, A.K and A. Sandmo, 1977, Some Simplified Formulae for Optimal Income Taxation, Scandinavian Journal of Economics, 79, 417-423

Stern, N H., 1976, On the Specification of Models of Optimal Income Taxation, Journal of Public Economics, 6, 123 – 162

Stern, N.H. (1987), The theory of optimal commodity and income taxation: an introduction, in D. Newbery, and N. Stern, eds, The theory of Taxation for Developing Countries, Oxford, Oxford University Press, 22 – 59.

Lecture 9 Optimal Commodity Taxation

Identical individuals: efficiency
Ramsey Rule
Corlette and Hague
Different individuals: efficiency and equity
User charges as commodity taxes
Empirical estimates and policy implications

Abelson: Chapter 21
Stiglitz: Chapter 20, pp 562 - 576
Rosen: Chapter 14
Atkinson and Stiglitz: Chapter 12

Sandmo, A., 1976, Optimal Taxation. an introduction to the literature, Journal of Public Economics, 6, 37-54

Deaton, A.S., 1977, Equity, Efficiency and the Structure of Indirect Taxation, Journal of Public Economics 87 299-312

Lecture 10 Taxation of income or expenditure: saving and social insurance

Direct-indirect tax mix
Simple two period model
Extensions to multi-period setting
Savings and social insurance
Empirical sensitivity

Abelson: Chapter 26
Stiglitz: Chapter 14
Rosen: Chapter 9

*King M A., 1980, Taxation and Savings, in Hughes. G.A. and G.M. Heal (eds),
Public Policy and the Tax System, George Allen and Unwin.*

Lecture 11 Income tax extensions: capital taxation, risk and evasion

Capital taxation
Risk taking
Administration costs
Tax evasion

Stiglitz: Chapter 21
Rosen Chapter 14
Atkinson and Stiglitz: Chapter 4
Brown and Jackson: Chapter 14, p 343

Lecture 12 Corporation Tax

Reasons for corporations tax
Corporate profits
Types of corporate tax
Depreciation
Cost of capital
Incidence
Harberger model
Efficiency

Stiglitz: Chapter 23
Rosen: Chapter 17
Brown and Jackson: Chapter 18

Lecture 13 Fiscal federalism

Local public goods
Externalities
Tiebout model
Equity between regions
Property taxes
Capitalization
Grants in aid

Abelson: Chapter 27
Stiglitz: Chapters 26 and 27
Rosen: Chapter 20
Brown and Jackson: Chapter 9
Atkinson and Stiglitz: Chapter 5

Garnaut, R and V Fitzgerald, 2002, Review of Commonwealth-State Funding, Treasuries of NSW, Victoria and Western Australia

EXAMINATIONS

The University Examination period in Second Half Year 2004 is from 17/11/2004 to 1/12/2004.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.

<http://www.timetables.mq.edu.au/exam>

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at <http://www.reg.mq.edu.au/Forms/APSCon.pdf>

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period. (Individual Divisions may wish to signal when the Division's Supplementaries are normally scheduled.)

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, that is the final day of the official examination period.

PLAGIARISM

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own." Plagiarism is a serious breach of the University's rules and carries significant penalties. You must read the University's practices and procedures on plagiarism. These can be found in the Handbook of Undergraduate Studies or on the web at: <http://www.student.mq.edu.au/plagiarism/>

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

UNIVERSITY POLICY ON GRADING

Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a standardised numerical grade (SNG).

On occasion your raw mark for a unit (i.e., the total of your marks for each assessment item) may not be the same as the SNG which you receive. Under the Senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so that units with the same past performances of their students should achieve similar results.

It is important that you realise that the policy does not require that a minimum number of students are to be failed in any unit. In fact it does something like the opposite, in requiring examiners to explain their actions if more than 20% of students fail in a unit.

The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another will also receive a higher final scaled mark. An exception to this rule may occur (though it is unlikely) in the grading of units with a requirement that students are required to pass a specific component of the unit, such as the final exam.

For an explanation of the policy see
<http://www.mq.edu.au/senate/MQUonly/Issues/Guidelines2003.doc> or
<http://www.mq.edu.au/senate/MQUonly/Issues/detailedguidelines.doc>.

STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can accessed at
<http://www.student.mq.edu.au>.