

*Economics 40560 Section 01  
Tax Policy  
Professor Betson  
MW 3:00 to 4:15  
116 Pasquerilla Center*

*Course Description:*

Let's begin with a proposition that I believe to be true: "No one likes paying taxes." Since the payment of a tax implies an involuntary loss of private purchasing power for an individual, is it surprising that citizens do not like the "tax man?" Yet taxes are a necessary evil of government. Taxes are the means by which governments acquire the resources to carry out the functions they play in society. Differential taxation also becomes an instrument by which governments can influence the behavior of individuals and firms within the nation by favoring one sector of the economy through "lighter" tax levies or by levying higher taxes on other sectors of the economy.

Given a general disdain for taxes, it should not be surprising there has been a continuing debate over how we as a nation should tax ourselves. This debate has generated numerous proposals for reform -- all which promise wonderful things for the economy. The purpose of this course is to explore these proposals to see if any of them would indeed be an improvement in how we tax ourselves.

A secondary but important goal for the course is to sharpen your ability to apply microeconomic principles to think about real world questions. In this course, you will be asked to apply the theory you have learned in your intermediate theory courses and try to understand the theory's strengths but also its weaknesses and limitations.

*Honor Code Policy:*

I expect all students to abide by the Notre Dame Honor Code. While I encourage all students to form study groups to promote peer tutoring, I expect all students to fully participate in the course and homework. Specifically, the copying of another student's homework is considered an honor code violation just as copying answers during an exam would be considered an honor code violation. However, seeking help either from me or another student on the homework is encouraged.

*Class Website:* <http://www.nd.edu/~dbetson/courses/courses.html>

*Texts:*

The following two texts are required for the course:

*The Economics of Taxation*, by Salanie, 2003, MIT Press

*Federal Taxation in America, A Short History (2<sup>nd</sup> Edition)*, by Brownlee, 2004, Cambridge University Press

In addition, readings will be made available on the course web site

### *Grading:*

The overall course grade will reflect the following weighted average

Midterm (10/15)	25%
Final Exam (12/16)	25%
Class Participation	10%
Homework Assignments	15%
Research Paper	25%

Each component will be assigned a letter grade (for example, an A- will be recorded as 3.67) and then weighted to arrive at course grade.

### *Lecture Attendance Policy:*

The Academic Code (reprinted in Du Lac) states 'students are expected to attend classes regularly and punctually.' I have the same expectation as the university in this regard and to hold students accountable I have instituted the following attendance policy. Prior to each lecture students will 'sign in' by checking off their name on the class list. This list will be collected at the beginning of the lecture. Any student found to signing in for other students will be guilty of an honor code violation as well as the student who falsely was 'signed in.'

University approved excuses will be recognized but after one unexcused absence, your class participation grade will be lowered by .20 for every unexcused absence.

### *Homework:*

Short homework assignments will be given out periodically (approximately 15) throughout the semester.

### *Research Paper:*

A 10 to 15 page research paper is a requirement of this course. While during the first couple of weeks I will be offering some suggestions of appropriate topics, the final choice is the student's. By October 1, you will submit a (approximately one paragraph) proposal describing the topic you will be writing. In this proposal you should aim to articulate a research question that you will be addressing in your paper. You should feel free to discuss the paper topic or anything about the paper with me. On the last day of class, the final draft of the paper is due.

### *Office Hours:*

My regular office hours will be from 10:30 to Noon on Tuesday and from 1:30 to 5 PM on Thursday. I am not available on Fridays. If you are not available for these times, appointments at other times can be arranged. You should be aware that my other class is at 3 to 4:15 on MW. Prior to the due dates for home works and midterm exams, I will hold extra hours. My office is 404 Decio Hall. You are strongly encouraged to come and talk even if you are not having problems with the material. I can be contacted at 1-5068 (office telephone) or via email at [dbetson@nd.edu](mailto:dbetson@nd.edu).

### *Schedule and Reading Assignment:*

Beginning on the next page, the daily schedule for the topics is provided. This schedule is tentative as I judge how fast or slow we can cover the material. Reading assignments for the next lecture will be provided in class and emailed to you.

## *Tentative Class Schedule*

### *Lecture*

#### *Week 1:*

8/27 1 Introduction and Overview of Course

#### *Week 2:*

9/1 2 A Short Course on Income Tax Preparation – Welcome to the 1040 Form

9/3 3 Complications to the Simple Case (Capital and High Income)

#### *Week 3:*

9/8 4 Who Pays a Tax? – Distributional Impact of Taxes

9/10 5 Impact of Taxes on Labor Supply (Work Effort)

#### *Week 4:*

9/15 6 Impact of Taxes on Savings and Investment

9/17 7 Do Taxes Really Have an Impact – Evidence from the 1986 Tax Reform

#### *Week 5:*

9/22 8 Tax Fairness

9/24 No class due to the University Forum

#### *Week 6:*

9/29 9 Administrative Simplicity and Compliance

10/1 10 Concept of Deadweight Loss and Efficiency  
Paper Topic/Proposal Due

#### *Week 7:*

10/6 11 Optimal Indirect Taxation

10/8 12 Optimal Direct Taxation (Part I)

#### *Week 8:*

10/13 13 Optimal Direct Taxation (Part II)

10/15 Midterm Exam

**Fall Break (10/18 to 10/26)**

*Week 9:*

10/27	14	Historical Perspectives: From the Revolution to the Creation of the Income Tax
10/29	15	From WWI to the Present

*Week 10:*

11/3	16	What is Fundamental Tax Reform?
11/5	17	Sales and Value Added Taxes

*Week 11:*

11/10	18	The Flat Tax and other Consumption Taxes (USA Tax)
11/12	19	What are the Potential Gains and Costs of Consumption Taxes?

*Week 12:*

11/17	20	A Better Income Tax?
11/19	21	Is a Mixed Approach Preferable?

*Week 13:*

11/24	22	Is Reform Likely?
11/26		Thanksgiving Break

*Week 14:*

12/1	23	Alternative Low-Income Assistance
12/3	24	Theoretical Impacts and Empirical Evidence

*Week 15:*

12/8	25	Optimal Green Taxes
12/10	26	More on Green Taxes and Preparation for the Final Exam Final Drafts of Research Paper Due

**FINAL EXAM – 4:15 PM on Tuesday December 16**