

# University of Waterloo

## Course Outline

Term & Year:

Spring 2011

Course Number & Title:

ECON 442, Economics of Taxation

Lecture Times, Building & Room Number:

MW 8:30–9:50, HH 150

Instructor's Name, Office Location, Office Hours, Contact:

Prof. Nguyen, HH 202, MW 11:30–12:30 (additional hours announced in class)

519-888-4567 ext 32794 (email is preferred)

[eco442.uw@gmail.com](mailto:eco442.uw@gmail.com) (use this address; email to other addresses might be filtered and junked)

TA's Name, Office, Office Hours, Contact:

Jung Baek, PAS 1288, Thu 2:00-4:00, Fri 10:00-12:00

[jbaek@uwaterloo.ca](mailto:jbaek@uwaterloo.ca)

[jbaek567@gmail.com](mailto:jbaek567@gmail.com)

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### 1. Course Description

This course introduces students to the subject of economics of taxation. Students will learn how to apply concepts and techniques of economic analysis to tax policies and issues such as efficiency and distribution, tax incidence, and incentive effects. The main focus is on the *economics of taxation*, rather on politics and laws, accounting practices, or personal finances. The teaching approach is problem-solving designed to help students develop analytical skills in “thinking taxation” and apply economic theory to taxation issues. Such skills take time to develop and students are expected to regularly participate in all class activities including attendance, discussions, readings, and exercises. This course cannot be crammed in a week or two before the final exam.

### 2. Course Objectives

At the end of the course, students should be able to

- understand the economic principles of the effects of taxation in the economy;
- apply tools and techniques of modern taxation theory;
- formulate and solve analytical problems in taxation theory;
- have a bird-eye overview of taxation issues;
- appreciate the role and limitation of taxes in economic policy design.

### 3. Texts

There are no suitable texts for upper-year undergraduates who have taken the intermediate micro and macro theory (ECON 301-302) but not the senior undergraduate advanced theory (ECON 401-402). Current texts available in the market are either too elementary requiring only introductory economics (e.g., Harvey Rosen et. al., 2008. *Public Finance in Canada*, third Canadian edition, McGraw-Hill Ryerson) or too advanced requiring strong graduate background in theory (ECON 601-602). There are no middle ground texts. Hence, lectures will be provided and regular class attendance is essential. Given that class meets at 8:30 am on Monday and Wednesday, some students might need to adjust their daily schedule for the duration of the term (e.g., go to bed early for these two days).

## 4. Topics

The subject of economics of taxation is broad, alive, and growing. It is thus practically impossible to cover every topic in a short one-term course. The following list of selected topics is tentative and could be revised to suit student interests, progress and background preparedness.

1. Background Review: A World Without Taxes (about 2 weeks)
  - Consumer Equilibrium; Producer Equilibrium; Market Equilibrium
  - General Equilibrium; Economic Efficiency
  - Welfare Measures
2. General Equilibrium Tax Incidence (about 3 weeks)
  - General Equilibrium Without Taxes
  - General Equilibrium With Taxes
  - Computable General Equilibrium Tax Modeling
  - GAMS modeling software (details in class)
3. Optimal Taxation (about 3 weeks)
  - Optimal Commodity Taxes
  - Optimal Income Taxes
4. Tax Effects (about 3 weeks)
  - Tax Effects on Household Decisions
  - Tax Effects on Firm Decisions
  - Tax Effects on Risk Decisions
5. Selected Issues in Tax Policies (about 3 weeks)
  - Taxes in a Federation Economy
  - Revenue Sharing and Equalization
  - Environmental Taxation

## 5. Evaluation

The mark breakdown is as follows:

final exam	55%
midterm	25%
2 quizzes at 5% each	10%
exercises	10%

- **Final Exam**

The scope of the final exam (2½ hrs, closed-book, bring calculator, pencils, and eraser) is *comprehensive* covering the entire term (not just materials after the midterm) including all course materials. The final exam date is scheduled by the Registrar's Office and cannot be changed to accommodate student travel plans for whatever reasons. See Section 7(a) for rules on missing a final exam due to illness.
- **Midterm**

Midterm (1½ hrs, in class, closed-book, bring calculator, pencils, and eraser). The Registrar's Office arranged rooms and hence the midterm date cannot be changed to accommodate student travel plans or midterms of other classes. See Section 7(b) for rules on missing a midterm due to illness.
- **Quizzes**

Quizzes (15-30 minutes, in-class, closed book, bring calculator, pencils, and eraser). The topic of a quiz might be announced to the class. The purpose of the quiz system is to keep students on

track and provide early warning signals if necessary. The quiz date is an integrated part of the course schedule and cannot be changed to accommodate student plans. See Section 7(b) for rules on missing a quiz due to illness.

- **Exercises**

Although economics becomes increasingly more technical, students in economics do not seem to get enough exercises to develop their required skill set. Most courses have 2 or 3 assignments for the whole term and most students, for various reasons, wait until the last minutes to do them.

In this course, we do it differently: students are given regular weekly exercises (given on Wed, due on Mon). The exercises are smaller and less formal than the usual assignments so that they do not overload the time students need to devote to their other courses. On the other hand, these exercises help students develop a regular study habit (e.g., avoid coming to class unprepared and empty-handed). Exercises are due at the beginning of classes before answers are discussed. The idea is to make students keep working during the term, avoid procrastination, and allow time for skill development.

The tentative schedule for the exercises are: May 9, May 16, May 30, Jun 6, Jun 13, Jun 27, Jul 4, Jul 11, Jul 18, Jul 25 (see uw-ace for updates). Late exercises are not accepted. Missing classes are considered missing exercises. While discussion is permitted, students must do the exercises alone.

The scope of the exercises ranges from routine or drill exercises to exploration. Some exercises might require the GAMS modeling software to get numerical solutions. Instructions on computer software will be provided so that exercises can be completed without getting into programming details. Students might be asked to explain their answers during class discussion or in private office or both.

## 6. Important Dates

Mon	May 23	no class (Victoria Day)
Wed	May 25	quiz 1
Wed	Jun 22	HH 150 (last names A-H) HH 280 (last names I-Z)
Wed	Jul 6	quiz 2
Tue-Mon	Jul 27-31	study days
Tue-Sat	Aug 2-13	final exams

## 7. Rules & Procedures

### (a) Missing Final Exam Due to Illness

Missing the final exam is a very serious matter which automatically results in a zero mark for the exam itself and possibly a failing mark for the course. In case of illness, see the deferred exam policy at <http://economics.uwaterloo.ca/DeferredExams.html>:

- notify the instructor within 48 hours (preferably by email)
- get your doctor to complete the UW Verification of Illness form (the only acceptable proof) see [http://www.healthservices.uwaterloo.ca/Health\\_Services/verification.html](http://www.healthservices.uwaterloo.ca/Health_Services/verification.html)
- submit the petition [http://economics.uwaterloo.ca/specialrequest\\_deferred\\_exam.pdf](http://economics.uwaterloo.ca/specialrequest_deferred_exam.pdf) together with the UW Verification of Illness form to the instructor for department approval.

Note that (a) you should be prepared to write the deferred exam in short notice as it is not a time extension to study, and (b) you will automatically get a zero mark if you are granted a deferred exam and miss it (you get only one chance).

**(b) Missing Quizzes and Midterm Due to Illness**

By default, the computer automatically assigns zero marks for all missing required course work. In case of illness, remedies, if approved, include manual override to shift the weight of the missing work to the final exam. Follow the instructions below carefully:

- notify the instructor within 48 hours (preferably by email)
- get your doctor to complete the UW Verification of Illness form (the only acceptable proof) see [http://www.healthservices.uwaterloo.ca/Health\\_Services/verification.html](http://www.healthservices.uwaterloo.ca/Health_Services/verification.html)
- submit the special request form <http://economics.uwaterloo.ca/SpecialRequest.pdf> together with the UW Verification of Illness form to the instructor for approval.

**(c) Missing Quizzes and Midterm Due to Non-Illness Circumstances**

By default, the computer automatically assigns zero marks for all missing required course work. Occasionally, non-illness events (e.g., job interviews, emergencies, death in family) might be considered. These are not always granted and decisions will be made on a case-by-case basis and by discretion. If approved, remedies include manual override to shift the weight of the missing work to the final exam. Follow the instructions below carefully:

- notify the instructor well ahead of the event or within 48 hours (preferably by email)
- submit the special request form <http://economics.uwaterloo.ca/SpecialRequest.pdf> together with supporting documentation (this is essential) to the instructor for approval.

**(d) Late Submission**

Late submissions will not be accepted and missed submission will receive zero marks.

- For online quizzes, the computer usually gives some warnings before the deadline and refuses to accept late submissions (even if you miss by a fraction of a second) for whatever reason. The time zone of the deadline is set to be the local Waterloo time.
- For paper quizzes and exams, late submissions are not accepted and missed submission will receive zero marks for whatever reason.
- It is students' responsibility to submit exam papers (completely intact) on time. Exams not submitted on time (or submitted with missing pages) receive zero marks.

**(e) Group Work**

- Students may elect to study alone or in group depending on their tastes and learning styles. In tests, they must work alone and unaided
- Unauthorized collaboration with other students (or non-students like family members and friends) and unauthorized uses of books, notes, study aids, cheat sheets, electronic and communication devices are not permitted. Violations of these rules are considered serious breach of academic integrity. Non-programmable calculators are usually allowed.

**(f) Laptop Computers**

- Laptop computers (including notebooks, netbooks, ipads, iphones, blackberrys, and the likes) may be used during classes provided they are used for learning purposes directly related to the course (e.g., note taking, problem solving, numerical calculations, online search for materials related to topic being discussed in class).
- Examples of unacceptable uses of laptops during class include: personal email, facebook, movie, inappropriate surfing, and work on other courses. These activities create distractions to other students.

**(g) Class Attendance**

- This course is not an online course. Regular class attendance is an essential ingredient for successful completion of the course. Although not included in the official mark breakdown, class attendance is not optional.

- Students are expected to (a) attend all class meetings, (b) remain in class for the entire period, and (c) fully participate in class activities.
- Casual presence (e.g., reading email, study other courses in class, come at the end of the class period, sign attendance records and leave) does not count and is treated as absence.
- Students who miss classes for whatever reasons are responsible to catching up with course materials on their own. Class handouts are distributed to students attending classes only.
- While there is no mark penalty for not showing up in class, a good record of class attendance can help in borderline cases, bonus marks, and letters of reference down the road.
- Students should always sign the same way on the attendance records. Signing for someone else (or having someone to sign for you in your absence) is as serious as cheating since it gives a false pretense that a student is attending class (while he/she is at somewhere else).

## 8. University Statements

### Cross-listed Course

A cross-listed course will count in all respective averages no matter under which rubric it has been taken. For example, a PHIL/PSCI cross-list will count in a Philosophy major average, even if the course was taken under the Political Science rubric.

### Academic Integrity

**Academic Integrity:** In order to maintain a culture of academic integrity, members of the University of Waterloo are expected to promote honesty, trust, fairness, respect and responsibility.

**Discipline:** A student is expected to know what constitutes academic integrity, to avoid committing academic offences, and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offence, or who needs help in learning how to avoid offences (e.g., plagiarism, cheating) or about “rules” for group work/collaboration should seek guidance from the course professor, academic advisor, or the Undergraduate Associate Dean. When misconduct has been found to have occurred, disciplinary penalties will be imposed under Policy 71 Student Discipline. For information on categories of offenses and types of penalties, students should refer to Policy 71 Student Discipline,

<http://www.adm.uwaterloo.ca/infosec/Policies/policy71.htm>

**Grievance:** A student who believes that a decision affecting some aspect of his/her university life has been unfair or unreasonable may have grounds for initiating a grievance. Read Policy 70 Student Petitions and Grievances, Section 4, <http://www.adm.uwaterloo.ca/infosec/Policies/policy70.htm>

**Appeals:** A student may appeal the finding and/or penalty in a decision made under Policy 70 Student Petitions and Grievances (other than regarding a petition) or Policy 71 Student Discipline if a ground for an appeal can be established. Read Policy 72 Student Appeals,

<http://www.adm.uwaterloo.ca/infosec/Policies/policy72.htm>

**Academic Integrity website (Arts):** [http://arts.uwaterloo.ca/arts/ugrad/academic\\_responsibility.html](http://arts.uwaterloo.ca/arts/ugrad/academic_responsibility.html)

**Academic Integrity Office (University):** <http://uwaterloo.ca/academicintegrity/>

### Accommodation for Students with Disabilities

**Note for students with disabilities:** The Office for Persons with Disabilities (OPD), located in Needles Hall, Room 1132, collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the OPD at the beginning of each academic term.