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Stanford University
Department of Economics

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ECON 242: Public Finance and Taxation II

This course covers topics in the static and dynamic taxation of household and firms, fiscal policy, social insurance, and behavioral public finance. It also aims at developing theoretical, empirical and computational skills to address optimal policy issues. Lectures are on Tuesdays and Thursdays 9-10:50AM in Landau 206. Office hours are by appointment in Landau 335 (Bernheim) and 341 (Scheuer).

Problem sets are an important part of this course. You are encouraged to work on them in groups but must turn in your own individual work. Some lectures will be devoted to the problem sets and related material and methods. The final grade will be based on the problem sets and class participation.

Reading List (🕮 = indispensable)

Topic 1: Optimal Social Insurance Design (Scheuer)

1.1 Competitive Insurance Markets with Adverse Selection

Akerlof, G., The Market for Lemons: Quality Uncertainty and the Market Mechanism, *Quarterly Journal of Economics* 1970

🕮 Bisin, A. and Gottardi, P., Efficient Competitive Equilibria with Adverse Selection, *Journal of Political Economy* 2006

Dubey, P. and Geanakoplos, J., Competitive Pooling: Rothschild and Stiglitz Reconsidered, *Quarterly Journal of Economics* 2002

Guerrieri, V., Shimer, R. and Wright, R., Adverse Selection in Competitive Search Equilibrium, *Econometrica* 2010

Netzer, N. and Scheuer, F., A Game-Theoretic Foundation of Competitive Equilibria with Adverse Selection, *International Economic Review* 2014

Prescott, E. and Townsend, R., Pareto Optima and Competitive Equilibria with Adverse Selection and Moral Hazard, *Econometrica* 1984

🕮 Rothschild, M. and Stiglitz, J., Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information, *Quarterly Journal of Economics* 1973

1.2 Testing and Measuring Adverse Selection in Insurance Markets

Einav, L. and Finkelstein, A., Selection in Insurance Markets: Theory and Empirics in Pictures, *Journal of Economic Perspectives* 2011

🕮 Einav, L., Finkelstein, A., and Cullen, M., Estimating Welfare in Insurance Markets Using Variation in Prices, *Quarterly Journal of Economics* 2010

🕮 Einav, L., Finkelstein, A., and Levin, J., Beyond Testing: Empirical Models of Insurance Markets, *Annual Review of Economics* 2010

Finkelstein, A. and McGarry, K., Multiple Dimensions of Private Information: Evidence from the Long-Term Care Insurance Market, *American Economic Review* 2006

Hendren, N., Insurance Rejections and Private Information, *Econometrica*, 2013

1.3 Further Frictions in Private Insurance Markets from Hidden Trades, Aggregate Uncertainty and Limited Commitment

Ales, L. and Maziero, P., Non-Exclusive Dynamic Contracts, Competition, and the Limits of Insurance, working paper 2014

🕮 Allen, F., Repeated Principal Agent Relationships with Lending and Borrowing, *Economics Letters* 1985

Cole, H. and Kocherlakota, N., Efficient Allocations with Hidden Income and Hidden Storage, *Review of Economic Studies* 2001

🕮 Hendel, I. and Lizzeri, A., The Role of Commitment in Dynamic Contracts: Evidence from Life Insurance, *Quarterly Journal of Economics* 2003

🕮 Scheuer, F., Optimal Asset Taxes in Financial Markets with Aggregate Uncertainty, *Review of Economic Dynamics* 2013

1.4 Markets versus Governments and Optimal Social Insurance Design with Endogenous Insurance Markets

Acemoglu, D., Golosov, M. and Tsyvinski, A., Markets versus Governments, *Journal of Monetary Economics* 2008

🕮 Bisin, A. and Rampini, A., Markets as Beneficial Constraints on the Government, *Journal of Public Economics* 2006

Chari, V. V., Limits of Markets and Limits of Governments: An Introduction to a Symposium on Political Economy, *Journal of Economic Theory* 2000

🕮 Chetty, R. and Saez, E., Optimal Taxation and Social Insurance with Endogenous Private Insurance, *American Economic Journal: Economic Policy* 2010

🕮 Golosov, M. and Tsyvinski, A., Optimal Taxation with Endogenous Insurance Markets, *Quarterly Journal of Economics* 2007

Netzer, N. and Scheuer, F., Taxation, Insurance and Precautionary Labor, *Journal of Public Economics* 2007

🕮 Netzer, N. and Scheuer, F., Competitive Markets without Commitment, *Journal of Political Economy* 2010

1.5 Identifying Statistics for Optimal Social Insurance Design

Baily, M., Some Aspects of Optimal Unemployment Insurance, *Journal of Public Economics* 1978

🕮 Chetty, R., A General Formula for the Optimal Level of Social Insurance, *Journal of Public Economics* 2006
Chetty, R. and Looney, A., Consumption Smoothing and the Welfare Consequences of Social Insurance in Developing Countries, *Journal of Public Economics* 2006
Chetty, R., Sufficient Statistics for Welfare Analysis: A Bridge Between Structural and Reduced-Form Methods, *Annual Review of Economics* 2009
Shimer, R. and Werning, I., Reservation Wages and Unemployment Insurance, *Quarterly Journal of Economics* 2007

1.6 Optimal Social Insurance Design in the Context of Unemployment Insurance

Acemoglu, D. and Shimer, R., Efficient Unemployment Insurance, *Journal of Political Economy* 1998
🕮 Chetty, R., Moral Hazard versus Liquidity and Optimal Unemployment Insurance, *Journal of Political Economy* 2008
🕮 Gruber, J., The Consumption Smoothing Benefits of Unemployment Insurance, *American Economic Review* 1997
🕮 Hopenhayn, H. and Nicolini, J., Optimal Unemployment Insurance, *Journal of Political Economy* 1997
Landais, C., Michaillat, P. and Saez, E., Optimal Unemployment Insurance over the Business Cycle, NBER working paper 2010
Meyer, B., Lessons from the US Unemployment Insurance Experiments, *Journal of Economic Literature* 1995
Shavell, S. and Weiss, L., The Optimal Payment of Unemployment Insurance Benefits over Time, *Journal of Political Economy* 1979
🕮 Shimer, R. and Werning, I., Liquidity and Insurance for the Unemployed, *American Economic Review* 2008
Shimer, R. and Werning, I., On the Optimal Timing of Benefits with Heterogeneous Workers and Human Capital Depreciation, NBER working paper 2006
Spinnewijn, J., Unemployed but Optimistic: Optimal Insurance Design with Biased Beliefs, working paper 2010

1.7 Optimal Social Insurance Design in the Context of Disability Insurance

Bound, J., The Health and Earnings of Rejected Disability Insurance Applicants, *American Economic Review* 1989
Diamond, P. and Sheshinski, E., Economic Aspects of Optimal Disability Benefits, *Journal of Public Economics* 1995
🕮 Golosov, M. and Tsyvinski, A., Designing Optimal Disability Insurance: A Case for Asset Testing, *Journal of Political Economy* 2006
🕮 Nichols, A. and Zeckhauser, R., Targeting Transfers Through Restrictions on Recipients, *American Economic Review* 1982
Parsons, D., The Health and Earnings of Rejected Disability Insurance Applicants: Comment," *American Economic Review* 1991

1.8 Optimal Social Insurance Design in the Context of Social Security

Coile, C. and Gruber, J., Social Security and Retirement, *Review of Economics and Statistics* 2007
Crawford, V. and Lilien, D., Social Security and the Retirement Decision, *Quarterly Journal of Economics* 1981
Davidoff, T., Brown, J. and Diamond, P., Annuities and Individual Welfare, *American Economic Review* 2005
🕮 Diamond, P., Social Security, *American Economic Review* 2004
Diamond, P. and Mirrlees, J., A Model of Social Insurance with Variable Retirement, *Journal of Public Economics* 1978
Diamond, P. and Mirrlees, J., Payroll-Tax Financed Social Security with Variable Retirement, *Scandinavian Journal of Economics* 1986
Diamond, P. and Orszag, P., Saving Social Security, *Journal of Economic Perspectives* 2005
🕮 Feldstein, M., Rethinking Social Insurance, *American Economic Review* 2005
Feldstein, M., Structural Reform of Social Security, *Journal of Economic Perspectives* 2005
Lindbeck, A. and Persson, M., The Gains from Pension Reform, *Journal of Economic Literature* 2003
🕮 Scholz, K., Sheshadri, A. and Khitatrakun, S., Are Americans Saving Optimally for Retirement?, *Journal of Political Economy* 2006
Stock, J. and Wise, D., Pensions, the Option Value of Work, and Retirement, *Econometrica* 1990

1.9 Optimal Social Insurance Design in the Context of Health Insurance

Cochrane, J., Time Consistent Health Insurance, *Journal of Political Economy* 1995
Finkelstein, A., The Aggregate Effects of Health Insurance: Evidence from the Introduction of Medicare, *Quarterly Journal of Economics* 2007
Finkelstein, A. et al., The Oregon Health Insurance Experiment: Evidence from the First Year, *Quarterly Journal of Economics* 2012
🕮 Gruber, J., Covering the Uninsured in the US, *Journal of Economic Literature* 2008
Hall, R. and Jones, C., The Value of Life and the Rise in Health Spending, *Quarterly Journal of Economics* 2007
🕮 Manning, W. et al., Health Insurance and the Demand for Medical Care: Evidence from a Randomized Experiment, *American Economic Review* 1987
Newhouse, J., Medical Care Costs: How Much Welfare Loss?, *Journal of Economic Perspectives* 1992
🕮 Newhouse, J., Reimbursement of Health Plans and Health Providers: Efficiency in Production vs. Selection, *Journal of Economic Literature* 1996
🕮 Scheuer, F. and Smetters, K., Could a Website Really Have Doomed the Health Exchanges? Multiple Equilibria, Initial Conditions, and the Construction of the Fine, NBER working paper 2014

Topic 2: Optimal Static Taxation (Scheuer)

2.1 Nonlinear Income Taxation

Diamond, P., Optimal Income Taxation: An example with a U-shaped Pattern of Optimal Marginal Tax Rates, *American Economic Review* 1998

Mirrlees, J., An Exploration into the Theory of Optimum Income Taxation, *Review of Economic Studies* 1971

Saez, E., Using Elasticities to Derive Optimal Income Tax Rates, *Review of Economic Studies* 2001

🕮 Werning, I., Pareto Efficient Income Taxation, MIT working paper 2007

2.2 Taxation under Extensive Margin Adjustments and Multidimensional Heterogeneity

Chone, P. and Laroque, G., Negative Marginal Tax Rates and Heterogeneity, *American Economic Review* 2010

Kleven, H., Kreiner, C. and Saez, E., The Optimal Income Taxation of Couples, *Econometrica* 2009

🕮 Rothschild, C. and Scheuer, F., Redistributive Taxation in the Roy Model, *Quarterly Journal of Economics* 2013

Rothschild, C. and Scheuer, F., A Theory of Income Taxation under Multidimensional Skill Heterogeneity, NBER working paper 2014

Saez, E., Optimal Income Transfer Programs: Intensive versus Extensive Labor Supply Responses, *Quarterly Journal of Economics* 2002

Scheuer, F., Entrepreneurial Taxation with Endogenous Entry, *American Economic Journal: Economic Policy* 2014

2.3 Taxation of Top Incomes with Rent-Seeking

Lockwood, B., Nathanson, C. and Weyl, G., Taxation and the Allocation of Talent, University of Chicago working paper 2013

🕮 Piketty, T., Saez, E. and Stantcheva, S., Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities, *American Economic Journal: Economic Policy* 2014

🕮 Rothschild, C. and Scheuer, F., Optimal Taxation with Rent-Seeking, NBER working paper 2011

2.4 Linear and Mixed Taxation

🕮 Atkinson, A. and Stiglitz, J., The Design of Tax Structure: Direct versus Indirect Taxation, *Journal of Public Economics* 1976

🕮 Chari, V. and Kehoe, P., Optimal Fiscal and Monetary Policy, Handbook of Macroeconomics 1999

Diamond, P., A Many-Person Ramsey Tax Rule, *Journal of Public Economics* 1975

Topic 3: Optimal Dynamic Taxation (Scheuer)

3.1 Linear Capital Taxation

Chamley, C., Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives, *Econometrica* 1986

🕮 Judd, K., Redistributive Taxation in a Simple Perfect Foresight Model, *Journal of Public Economics* 1985

Diamond, P. and Spinnewijn, J., Capital Income Taxes with Heterogeneous Discount Rates, *American Economic Journal: Economic Policy* 2011

3.2 Fiscal Policy with Business Cycle Shocks

Aiyagari, R., Optimal Capital Income Taxation with Incomplete Markets, Borrowing Constraints and Constant Discounting, *Journal of Political Economy* 1995

Aiyagari, R., A. Marcet, T. Sargent and J. Seppala, Optimal Taxation Without State-Contingent Debt, *Journal of Political Economy* 2002

Barro, R., On the Determination of Public Debt, *Journal of Political Economy* 1979

Christiano, L., V. V. Chari and P. Kehoe, Optimal Fiscal Policy in a Business Cycle Model, *Journal of Political Economy* 1994

Farhi, E., Capital Taxation and Ownership when Markets are Incomplete, *Journal of Political Economy* 2010

🕮 Lucas, R. and Stokey, N., Optimal Fiscal and Monetary Policy in an Economy without Capital, *Journal of Monetary Economics* 1983

🕮 Werning, I., Optimal Fiscal Policy with Redistribution, *Quarterly Journal of Economics* 2007

3.3 Nonlinear Capital Taxation

Albanesi, S. and Sleet, C., Dynamic Optimal Taxation with Private Information, *Review of Economic Studies* 2006

🕮 Farhi, E. and Werning, I., Capital Taxation: Quantitative Explorations of the Inverse Euler Equation, *Journal of Political Economy,* forthcoming

🕮 Golosov, M., Kocherlakota, N. and Tsyvinski, A., Optimal Indirect and Capital Taxation, *Review of Economic Studies* 2003

Golosov, M., Tsyvinski, A. and Werning, I., New Dynamic Public Finance: A User's Guide, *NBER Macroeconomics Annual* 2006

🕮 Kocherlakota, N., Zero Expected Wealth Taxes: A Mirrlees Approach to Dynamic Optimal Taxation, *Econometrica* 2005

Saez, E., Optimal Progressive Capital Income Taxation in the Infinite Horizon Model, *Journal of Public Economics* 2013

Werning, I., Nonlinear Capital Taxation, MIT working paper 2010

3.4 Taxation without Commitment

Acemoglu, D., Golosov, M. and Tsyvinski, A., Political Economy of Mechanisms, *Econometrica* 2008

Benhabib, J. and Rusticchini, A., Optimal Taxes Without Commitment, *Journal of Economic Theory* 1997

🕮 Farhi, E., Sleet, C., Werning, I. and Yeltekin, S., Nonlinear Capital Taxation without Commitment, *Review of Economic Studies* 2012

Phelan, C. and Stacchetti, E., Sequential Equilibria in a Ramsey Tax Model, *Econometrica* 2001

🕮 Scheuer, F. and Wolitzky, A., Capital Taxation under Political Constraints, NBER working paper 2014

3.5 Age Dependent Taxation over the Life Cycle

Erosa, A. and Gervais, M., Optimal Taxation in Life-Cycle Economies, *Journal of Economic Theory* 2002

🕮 Farhi, E. and Werning, I., Insurance and Taxation over the Life Cycle, *Review of Economic Studies* 2013

Stantcheva, S., Optimal Taxation and Human Capital Policies over the Life Cycle, MIT working paper 2014

🕮 Weinzierl, M., The Surprising Power of Age-Dependent Taxation, *Review of Economic Studies* 2011

3.6 Taxation of Intergenerational Transfers

Cremer, H. and Pestieau, P., Wealth and Wealth Transfer Taxation: A Survey, IDEI working paper 2009

Farhi, E. and Werning, I., Inequality and Social Discounting, *Journal of Political Economy* 2007

🕮 Farhi, E. and Werning, I., Progressive Estate Taxation, *Quarterly Journal of Economics* 2009

🕮 Piketty, T. and Saez, E., A Theory of Optimal Inheritance Taxation, *Econometrica* 2013

Topic 4: Corporate Taxation (Bernheim)

4.1 Taxes, Corporate Capital Structure, and Ownership

🕮 Auerbach, Alan, "Taxation and Corporate Financial Policy," in *Handbook of Public Economics* 3, 2002, 1252-1292.

Auerbach, Alan, and Mervyn King, "Taxation, Portfolio Choice, and Debt-Equity Ratios: A General Equilibrium Model," *Quarterly Journal of Economics*, November 1983, 587-609.

Bris, A., I. Welch, and N. Zhu, "The Costs of Bankruptcy: Chapter 7 Liquidation vs. Chapter 11 Reorganization," *Journal of Finance* 61(3), June 2006, 1253-1303.

Brown, Jeffrey, Nellie Liang, and Scott Weisbenner, "Individual Account Investment Options and Portfolio Choice: Behavioral Lessons from 401(k) Plans," NBER WP No. 13169, 2007.

DeAngelo, H., and R. Masulis, "Leverage and Dividend Irrelevancy Under Corporate and Personal Taxation," *Journal of Finance* 35, May 1980, 453-464.

DeAngelo, H., and R. Masulis, "Optimal Capital Structure Under Corporate and Personal Taxation," *Journal of Financial Economics* 8, March 1980, 3-29.

Erickson, Merle M., and Shiing-wu Wang, "Tax benefits as a source of merger premiums in acquisitions of private corporations," *Accounting Review* 82(2), March 2007, 359-387.

Fama, Eugene F., and Kenneth R. French, "Taxes, financing decisions and firm value," *Journal of Finance* 53(3), June 1998, 819-843.

Fama, Eugene F., and Kenneth R. French, "Financing Decisions: Who Issues Stock?" *Journal of Financial Economics* 76, June 2005, 549-582.

Givoly, Dan, Carla Hayn, Aharon R. Ofer and Oded Sarig, "Taxes and capital structure: Evidence from firms' response to the Tax Reform Act of 1986," *Review of Financial Studies* 5(2), Summer 1992, 331-355.

Gordon, Roger H. and Young Lee, "Do Taxes Affect Corporate Debt Policy? Evidence From U.S. Corporate Tax Return Data," *Journal of Public Economics* 82(2), November 2001, 195-224.

Graham, John R., "Taxes and Corporate Finance: A Review," *Review of Financial Studies* 16(4), Winter 2003, 1075-1129.

Graham, John R., "Debt and the Marginal Tax Rate," *Journal of Financial Economics* 41, May 1996, 41-74.

Graham, John R., "Do personal taxes affect corporate financing decisions?" *Journal of Public Economics* 73(2), August 1999, 147-185.

Graham, John R., "How Big Are the Tax Benefits of Debt?" *Journal of Finance* 55, October 2000, 1901-41.

Graham, John R., Michael Lemmon, and James Schallheim, "Debt, leases, taxes, and the endogeneity of corporate tax status," *Journal of Finance* 53 (1), 1998, 131–162.

Hay, Carla, "Tax attributes as determinants of shareholder gains in corporate acquisitions," *Journal of Financial Economics* 23(1), April 1989, 121-153.

Kaplan, Steven, "Management buyouts: Evidence on taxes as a source of value," *Journal of Finance* 44(3), July 1989, 611-632.

Mackie-Mason, Jeffrey, "Do Taxes Affect Corporate Financing Decisions," *Journal of Finance* 45, December 1990, 1471-1494.

Miller, Merton, "Debt and Taxes," *Journal of Finance* 32, 1977, 261-275.

Mitchell, Olivia, Gary Mottala, Stephen Utkus, and Takeshi Yamaguchi, "Default, Framing, and Spillover Effects: The Case of Lifecycle Funds in 401(k) Plans," NBER WP No. 15108, 2009.

Rajan, Raghuram G., and Luigi Zingales, "What do we know about capital structure? Some evidence from international data," *Journal of Finance* 50(5), December 1995, 1421-1460.

4.2 Taxes and Corporate Payout Policy

Auerbach, Alan J., "Taxation and corporate financial policy," in *Handbook of Public Economics* 3, 2002, 1251-1292.

Auerbach, Alan, and Kevin Hassett, "On the Marginal Source of Investment Funds," *Journal of Public Economics* 87, January 2003, 205-232.

Auerbach, Alan J., and Kevin Hassett, "The 2003 Dividend Tax Cuts and the Value of the Firm: An Event Study," in Auerbach, A., J. Hines, and J. Slemrod (eds.) *Taxing Corporate Income in the 21st Century*, 2007 (formerly NBER WP No. 11449).

Auerbach, Alan J. and Kevin Hassett, "Dividend Taxes and Firm Valuation: New Evidence," *American Economic Review*, May 2006, 119-123.

L. Bagwell and J. Shoven, "Cash Distributions to Shareholders," *Journal of Economic Perspectives* 3, Summer 1989, 129-140.

Bernheim, B. Douglas, "Tax Policy and the Dividend Puzzle," *RAND Journal of Economics* 22, Winter 1991, 455-476.

🕮 Bernheim, B. Douglas, and Adam Wantz, "A Tax-Based Test of the Dividend Signaling Hypothesis," *American Economic Review* 85, June 1995, 532-551.

Bernheim, B. Douglas and Lee Redding, "Optimal Money Burning: Theory and Application to Corporate Dividend Policy," *Journal of Economics and Management Science* 10, Winter 2001, 463-507

Blouin, Jennifer L., Jana Smith Ready, and Douglas A. Shackelford, "Did Firms Substitute Dividends for Share Repurchases after the 2003 Reductions in Shareholder Tax Rates?" NBER WP No. 13601, November 2007.

Blouin, Jennifer L., Jana Smith Ready, and Douglas A. Shackelford, "Dividends, Share Repurchases, and Tax Clienteles: Evidence from the 2003 Reductions in Shareholder Taxes," NBER WP No. 16129, 2010.

Boyd, J., and R. Jagannathan, "Ex-Dividend Price Behavior of Common Stocks," *Review of Financial Studies* 7, Winter 1994, 711-741.

Bradford, David, and Roger Gordon, "Taxation and the Stock Market Value of Capital Gains and Dividends: Theory & Empirical Results," *Journal of Public Economics* 14, 1980, 109-36.

Brenan, Michael, and Anjan Thakor, "Shareholder Preferences and Dividend Policy," *Journal of Finance* 45(4), 1990, 993-1018.

Brav, A., J. Graham, C. Harvey, and R. Michaely, "Payout Policy in the 21st Century," *Journal of Financial Economics* 77, September 2005, 483-528.

Chetty, Raj, and Emmanuel Saez, "Dividend Taxes and Corporate Behavior: Evidence from the 2003 Dividend Tax Cut," *Quarterly Journal of Economics* 120, August 2005, 791-834.

🕮 Chetty, Raj, and Emmanuel Saez, "Dividend and Corporate Taxation in an Agency Model of the Firm," *American Economic Journal: Economic Policy*, forthcoming, 2009.

🕮 Chetty, Raj, Joseph Rosenberg, and Emmanuel Saez, "The Effects of Taxes on Market Responses to Dividend Announcements and Payments: What Can We Learn from the 2003 Dividend Tax Cut?" in A. Auerbach, J. Hines, and J. Slemrod (eds.), *Taxing Corporate Income in the 21st Century*, Cambridge: Cambridge University Press, 2007, 1-33 (formerly NBER WP No. 11452).

DeAngelo, H., L. DeAngelo, and R. Stulz, "Dividend Policy, Agency Costs, and Earned Equity," NBER Working Paper 10599, 2003.
Desai, Mihir A., and Li Jin, "Institutional Tax Clienteles and Payout Policy," NBER WP No. 13283, 2007.
Desai, Mihir A., C. Fritz Foley and James R. Hines Jr., "Dividend policy inside the multinational firm," *Financial Management* 36(1), Spring 2007, 5-26.
Fama, Eugene F., and Kenneth R. French, "Disappearing dividends: Changing firm characteristics or lower propensity to pay?" *Journal of Financial Economics* 60(1), April 2001, 3-43.
Fama, Eugene F., and Kenneth R. French, "Testing tradeoff and pecking order predictions about dividends and debt," *Review of Financial Studies* 15(1), Spring 2002, 1-37.
Frank, Murray, and Ravi Jagannathan, "Why do stock prices drop by less than the value of the dividend? Evidence from a country without taxes," *Journal of Financial Economics* 47(2), 1998, 161-188.
Gordon, Roger, and Martin Dietz, "Dividends and Taxes," *Institutional Foundations of Public Finance: Economic and Legal Perspectives*, 2008, pp. 204-24 (formerly NBER WP No. 12292).
Grullon, Gustavo, and Roni Michaely, "Dividends, share repurchases, and the substitution hypothesis," *Journal of Finance* 57(4), August 2002, 1649-1684.
Hines, James R., "Dividends and profits: Some unsubtle foreign influences," *Journal of Finance* 51(2), June 1996, 661-689.
Korinek, Anton, and Joseph E. Stiglitz, "Dividend taxation and intertemporal tax arbitrage," *Journal of Public Economics* 93(1-2), February 2009, 142-159.
Perez-Gonzalez, Francisco, "Large Shareholders and Dividends: Evidence from U.S. Tax Reforms," mimeo, Columbia University Graduate School of Business, 2003.
Poterba, James, "Taxation and Corporate Payout Policy," *American Economic Review* 94 May 2004, 171-175.
Poterba, James, and Lawrence Summers, "New Evidence that Taxes Affect the Valuation of Dividends," *Journal of Finance* 39(5), 1984, 1397-1415.
Poterba, James, and Lawrence Summers, "The Economic Effects of Dividend Taxation," in E. Altman and M. Subrahmanyam, eds., *Recent Advances in Corporation Finance*, 1985, 227-284.

4.3 Taxes and Corporate Investment

Auerbach, Alan J., "Taxation, Corporate Financial Policy, and the Cost of Capital," *Journal of Economic Literature* 21, 1983, 905-940.
Auerbach, Alan J., "The Tax Reform Act of 1986 and the Cost of Capital," *Journal of Economic Perspectives* 1, 1987, 73-86.
Auerbach, Alan J., and Kevin A. Hassett, "Tax policy and business fixed investment in the United States," *Journal of Public Economics* 47(2), March 1992, 141-170.
Auerbach, Alan J., and Kevin Hassett, "On the marginal source of investment funds," *Journal of Public Economics* 87(1), January 2003, 205-232.
Bernanke, B., H. Bohn, and P. Reiss, "Alternative Non-nested Specification Tests of Time Series Investment Models," *Journal of Econometrics* 37, March 1988, 293-326.

Blundell, R., et al., "Investment and Tobin's Q: Evidence from Company Panel Data," *Journal of Econometrics* 51, January/February 1992, 233-258.

Caballero, R., E. Engel, and J. Haltiwanger, "Plant Level Adjustment and Aggregate Investment Dynamics," *Brookings Papers on Economic Activity* 1995:2, 1-54.

Caballero, Ricardo, "Aggregate Investment," in *Handbook of Macroeconomics*, Volume 1B, 1999, 813-862.

Chirinko, Robert S., Seven M. Fazzari, and Andrew P. Meyer, "How responsive is business capital formation to its user cost? An exploration with micro data," *Journal of Public Economics* 74(1), October 1999, 53-80.

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Cummins, Jason G., Kevin A. Hassett, and R. Glenn Hubbard, "A reconsideration of investment behavior using tax reforms as natural experiments," *Brookings Papers on Economic Activity*, 1994:2, 1-59.

Desai, Mihir, and Austan Goolsbee, "Investment, Overhang, and Tax Policy," *Brookings Papers on Economic Activity*, 2004:2, 285-338.

Djankov, Simeon, Tim Ganser, Caralee McLeish, Rita Ramalho, and Andrei Shleifer, "The effect of corporate taxes on investment and entrepreneurship," *American Economic Journal: Macroeconomics*, forthcoming, 2009 (formerly NBER Working Paper No. 13756).

Erickson, T., and T. Whited, "Measurement Error and the Relationship Between Investment and q," *Journal of Political Economy* 108, 2000, 1027-1057.

🕮 Fazzari, S., R.G. Hubbard, and B. Peterson, "Financing Constraints and Corporate Investment," *Brookings Papers on Economic Activity*, 1988:1, 141-195.

Goolsbee, Austan, "Investment Tax Incentives, Prices, and the Supply of Capital Goods," *Quarterly Journal of Economics* 113, 1998, 121-148.

Hassett, Kevin, and R. G. Hubbard, "Tax Policy and Business Investment," in *Handbook of Public Economics* 3, 2002, 1294-1343.

🕮 House, C., and M. Shapiro, "Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation," *American Economic Review*, June 2008, v. 98, iss. 3, pp. 737-68.

Lamont, Owen, "Cash Flow and Investment: Evidence from Internal Capital Markets," *Journal of Finance* 52, March 1997, 83-109.

Summers, Lawrence, "Taxation and Corporate Investment: A q-Theory Approach," *Brookings Papers on Economic Activity*, 1981:1, 67-127.

Topic 5: Policies Affecting Personal Financial Decisions (Bernheim)

5.1 The responsiveness of saving to financial incentives

5.1.1 Critical surveys

🕮 Bernheim, B.D., "Taxation and Saving," in *Handbook of Public Economics*, 2002, Vol. 3, 1173-1249.

📖 Engen, E., W. Gale, and J.K. Scholz, "The Illusory Effects of Saving Incentives," *Journal of Economic Perspectives* 10, 1996, 113-138.

Engen, E., W. Gale, and J.K. Scholz. "Do Saving Incentives Work?" *Brookings Papers on Economic Activity*, 1994 (1), pp. 85-180.

📖 Poterba, J., S. Venti, and D. Wise, "How Retirement Saving Programs Increase Saving," *Journal of Economic Perspectives* 10, 1996, 91-112.

5.1.2 IRAs and 401(k)s

Attanasio, Orazio and Thomas DeLeire, "The Effect of Individual Retirement Accounts on Household Consumption and National Saving," *Economic Journal*, 112(7), 2002, 504-38.

📖 Benjamin, D., "Does 401(k) Eligibility Increase Saving? Evidence from Propensity Score Subclassification," *Journal of Public Economics* 85, 2003, 121-148.

Engelhardt, Gary V., and Anil Kumar, "Employer Matching and 401(k) Saving: Evidence from the Health and Retirement Study," *Journal of Public Economics* 91 (10), 2007, 1920–1943.Gale, William G. and John Karl Scholz, "IRAs and Household Saving," *American Economic Review* 84, December 1994, 1233-1260.

📖 Gelber, Alexander, "How do 401(k)s Affect Saving? Evidence from Changes in 401(k) Eligibility," *AEJ: Economic Policy*, forthcoming.

Poterba, James M., Steven F. Venti and David A. Wise, "Do 401(k) Contributions Crowd Out Other Personal Saving?" *Journal of Public Economics* 58, 1995, 1-32.

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