

## Reading List 2

### 1 Taxation, Investment and the Cost of Capital

The effect of taxation on investment by firms and households. Topics in this area include: determinants of investment; the cost of capital; asset prices; taxes on new capital goods; investment tax credits; depreciation deductions; depletion allowances; expensing and flat taxes; financial structure and the choice between debt and equity; dividend behavior; legal form of organization: corporate vs. non-corporate; long and short-lived capital; research and development; intangibles; taxation and owner-occupied housing; tax treatment of natural resources.

#### Fundamental Reference:

Hassett, Kevin A. and R. Glenn Hubbard (2002), "Tax Policy and Business Investment," in Alan J. Auerbach and Martin Feldstein (eds), *Handbook of Public Economics, Volume 3*, Amsterdam: North-Holland, pp. 1293-1343.

#### Literature:

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Auerbach, Alan J. (1987), "The Tax Reform Act of 1986 and the Cost of Capital," *Journal of Economic Perspectives*, 1, 73-86.

Auerbach, Alan J. (2002), "Taxation and Corporate Financial Policy," in Alan J. Auerbach and Martin Feldstein (eds), *Handbook of Public Economics, Volume 3*, Amsterdam: North-Holland, pp. 1293-1343.

Auerbach, Alan J. and Joel Slemrod (1997), "The Economic Effects of the Tax Reform Act of 1986," *Journal of Economic Literature*, 35(June 1997), pp. 589-632.

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Chirinko, Robert S., Steven M. Fazzari and Andrew P. Meyer (1999), "How Responsive is Business Capital Formation to Its User Cost? An Exploration with Micro Data," *Journal of Public Economics*, 74 (October 1999), pp. 53-80.

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- Pindyck, Robert S. (1991), "Irreversibility, Uncertainty, and Investment," *Journal of Economic Literature*, 29, 1110-1148.
- Rosen, Harvey S. (1985), "Housing Subsidies," in Alan J. Auerbach and Martin Feldstein (eds), *Handbook of Public Economics, Volume 1*, Amsterdam: North-Holland, pp. 375-420.
- Summers, Lawrence H. (1981a), "Taxation and Corporate Investment: A q-Theory Approach," *Brookings Papers on Economic Activity*, pp. 67-127.
- Summers, Lawrence H. (1981b), "Capital Taxation and Capital Accumulation in a Life Cycle Growth Model," *American Economic Review*, 71, 533-544.

## 2 Tax Incidence

The incidence of taxes: who bears the burden? Topics include: partial equilibrium analysis; static general equilibrium analysis; intertemporal general equilibrium; tax capitalization and effects on asset prices; fiscal federalism and competition between jurisdictions.

### Fundamental Reference:

- Kotlikoff, Laurence J. and Lawrence H. Summers (1987), "Tax Incidence" in Alan J. Auerbach and Martin Feldstein (eds), *Handbook of Public Economics, Volume 2*, Amsterdam: North Holland, pp. 1043-1092.

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### 3 Externalities

The control of externalities. Topics include: stock, flow and fund externalities; corrective taxes; the Coase Critique; marketable permits; the effect of uncertainty; hybrid policies; command and control regulation; local vs. national standards; market imperfections; enforcement; non-convexities; measuring environmental benefits: avoidance and mitigation, risk assessment, hedonic pricing, travel costs, contingent valuation; valuing a statistical life or life year; cost-benefit analysis and cost-effectiveness analysis; regulatory reform; regulation and international trade; litigation and citizen suits; the social cost of environmental protection.

#### Fundamental References:

Baumol, William J. and Wallace E. Oates (1988), *The Theory of Environmental Policy*, New York: Cambridge University Press.

Stavins, Robert N., ed. (2000), *Economics of the Environment: Selected Readings*, New York: W.W. Norton.

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Many key papers in the literature on environmental economics are reprinted in Stavins (2000). In the list below, papers appearing in it are indicated by [S] at the end of the citation.

Arrow, K.J. and A.C. Fisher (1974), "Environmental Preservation, Uncertainty, and Irreversibility," *Quarterly Journal of Economics*, Vol. 88, May.

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