

Taxation

- Chap 14 - skip section
"General Equilibrium Models"
 - core theory on taxation
 - Chap 15 -
 - Chap 16 -
-

Base / Rates -

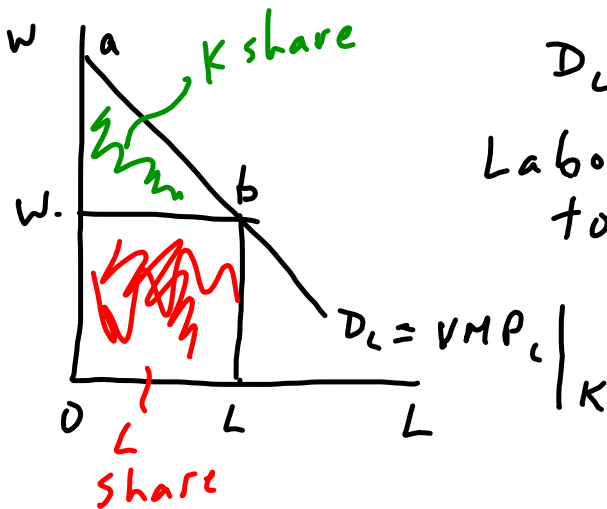
- objectives → generate revenue
→ alter distribution of income
- role public sector in income distribution
- "fisc." [- expend / transfer \$ go
- revenue \$ from

Incidence - who bears tax?
 - who gets expenditures?
 → expend. → example → legal system
 distribution of benefits? { police
 courts - criminal
 civil.

D o D

Congressional Budget Office
 American Enterprise Inst
 Tax Policy Center

Functional Distribution of Income.



$$D_L = VMP_L = MPP_L \cdot P$$

Labor cost = $w \cdot L$

total value = $abLO$

$abw \rightarrow$ return to K

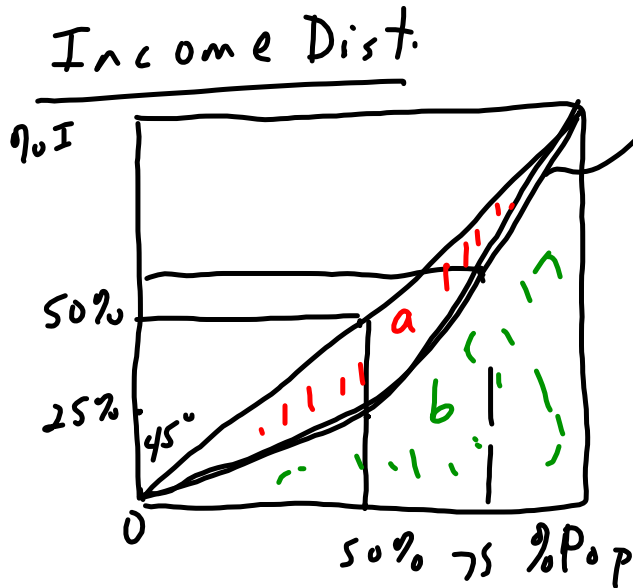
$$I = w \cdot L + r \cdot K - \text{Functional Shares}$$

Households own $L \& K$

sale of labor \nearrow "rental" of capital.

$$I_i = w \cdot L_i + r \cdot K_i$$

$$I = \sum_{i=1}^n I_i$$



Lorenz Curve

Gini coefficient

$$G = \frac{a}{a+b}$$

$G = 0$ equal distribution

$G = 1$ one person has all income

$b = 0$

Why not allow functional share to persist?

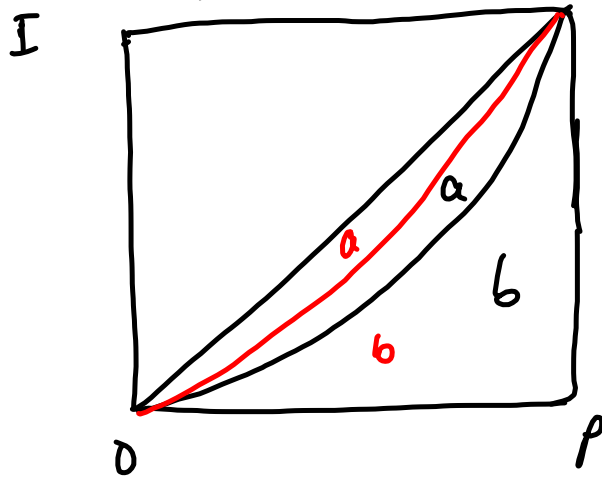
interdependent utility

$$U_i = U(c_i, c_j) \quad i \neq j$$

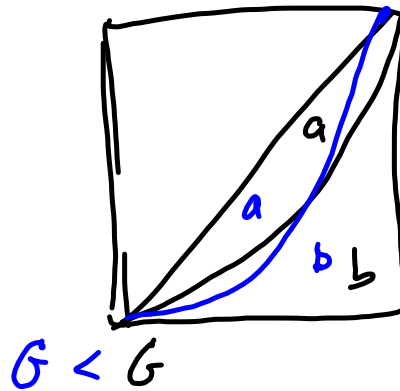
forego c_i to increase c_j

charity
- voting in favor of redist.

"veil of ignorance" - predict where offspring will wind up so push for mechanism to redist.
 $G \downarrow \rightarrow$ fiscal redist. income



$$G < \bar{G}$$



$$G < G$$

Progressive tax structure

- tax as % Income \uparrow as Income \uparrow
- marginal tax rate
- average " " $I_0 < I_1$

$$V_1 = \frac{T_1/I_1 - T_0/I_0}{I_1 - I_0}$$

average tax bill
by income

$$V_2 = \left(\frac{T_1 - T_0}{T_0} \right) / \left(\frac{I_1 - I_0}{I_0} \right)$$

elasticity of
tax bill

$V_2 > 0$ elasticity > 1 - progressive
tax structure

IRS.GOV → forms
 1040 2
 schedule A - 1
 schedule B - 1

tax capitalization - asset with
 tax liability -
 tax liability → capitalized into price of asset
 tax rate ↑ price asset ↓

$$P_D = \sum_{t=0}^{\infty} \frac{R_t}{(1+r)^t}$$

$$T > 0 \quad P'_D < P_D$$

- deduction of interest
 on mortgages

$$P'_D = \sum_{t=0}^{\infty} \frac{(R_t - T_t)}{(1+r)^t}$$

- removal cost of owning
 house ↑ Price of housing

$$P_H' = \sum_{t=0}^{\infty} \frac{(R_t + T_t^D)}{(1+r)^t}$$

tax deduction

$$P_H = \sum_{t=0}^{\infty} \frac{(R_t)}{(1+r)^t}$$

$$P_H < P_H'$$

estimate
10% ↓ average house price

- condition for paying tax or getting subsidy is ownership of a asset

Payroll tax - FICA ——— Soc Sec. / Medicare / Medicaid

- incidence? - legal — 1/2 employer
1/2 employee

- economic → depend supply elasticity of labor - i
if inelastic → tax borne labor - more likely
elastic → shifted to employer

Test - take home - no choice

Expenditure - Public Goods
- Externalities

Evaluation - BCA

Political
Economy -

Chapt 1.

Know 2 & 3 /

4, 5 - Market Failure

8 - Benefit Cost.

6 - Political Economy