

# **Public Goods through Taxation in a General Equilibrium Economy: Experimental Evidence**

**Dr. Shyam Sunder**

**Yale school of Management  
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## **Abstract**

We use a laboratory experiment to compare general equilibrium economies in which agents individually allocate their private goods among consumption, investment in production and maintenance of a depreciating public facility. The public facility is financed either by voluntary anonymous contributions (VAC) or taxes. We find that rates of taxation chosen by majority vote remain at an intermediate level, converging neither to zero nor to 100%, and the experimental economies sustain public goods at levels between the finite- and infinite-horizon optima. This contrasts with a rapid decline of public goods under voluntary anonymous contributions (VAC). Both the payoff efficiency and production of private goods are higher when taxes are set endogenously instead of being fixed at the optimum level. When subjects choose between VAC and taxation, 23 out of 24 majority votes favor taxation.

## **Speaker Profile:**

Dr. Shyam Sunder is the James L. Frank Professor of Accounting, Economics, and Finance at the Yale School of Management and Professor in the Department of Economics. He is a renowned accounting theorist and experimental economist. His research contributions include financial reporting, information in security markets, statistical theory of valuation, and design of electronic markets. He is a pioneer in the fields of experimental finance and experimental macroeconomics. Dr. Sunder has won many awards for his research that includes ten books and more than 200 articles in the leading journals of accounting, economics and finance, as well as in popular media. Dr. Sunder's current research includes the problem of structuring U.S. and international accounting and auditing institutions to obtain a judicious and efficient balance between regulatory oversight and market competition. He is a past president of the American Accounting Association, former director of the Millstein Center for Corporate Governance and Performance at Yale, honorary research director of Great Lakes Institute of Management in Chennai, and distinguished fellow of the Center for Study of Science and Technology Policy in Bengaluru.