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## TEACHING THE MACROECONOMIC EFFECTS OF TAX CUTS WITH A QUASI-EXPERIMENT

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### ABSTRACT

*We design and conduct a classroom experiment that teaches students the complexities of income tax policy and its effect on the macroeconomy. We also receive insights into how students make labor supply and consumption decisions when the tax structure changes. With the experimental design, we collect data as well as anecdotal evidence to test if tax cuts affect labor supply and consumption decisions. We find that both temporary and permanent income tax cuts significantly induce higher labor supply and consumption decisions, but the labor response is temporary for both the temporary and permanent cuts while the consumption permanence depends on the permanence of the tax cuts. A follow-up discussion of student data ties up the classroom activity.*

Key words: tax cuts, labor supply, consumption, experiment

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