

Research Proposal

ECON 450: Economics of Taxation

Professor Terry Moon

The goal of this research proposal is to expose students to empirical research in economics.

Topic: Impacts of Corporate Income Taxes on Firms' innovation activities

For this research proposal, students have to do the following:

1. Examine all the changes in corporate income tax rates in Canada between 2001 and 2019. You should look for changes both at the federal level and provincial level. In particular, distinguish changes in corporate tax rates across different sectors (i.e., manufacturing and processing vs. non-manufacturing) and across firm sizes (small firms vs. large/general firms). Essentially, you have 4 types of firms: (1) small manufacturing, (2) large manufacturing, (3) small non-manufacturing, (4) large non-manufacturing. Summarize all the tax rate changes in corporate tax rates across these 4 types both at the federal level and at provincial level between 2001 and 2019.
References: government websites
2. Search for accessible datasets that can be used to study this question (i.e., Statistics Canada: <https://www150.statcan.gc.ca/n1/en/type/data?MM=1>).
3. Come up with an empirical strategy to identify the effects of corporate income taxes on firms' innovation activities.
4. Write a research proposal summarizing your research question, motivation, literature review, institutional details, data sources, empirical design, and potential issues with your design.

Instructions for Writing (5-page max, 1.5 spacing, 1 inch margin, 12 pt Times)

1. Title page: First Name and Last Name and Student ID (include all group members)
2. Introduction: (1) Motivation, (2) Research question, (3) Literature Review (1 page)
3. Institutional Background (1 page)
4. Data Sources and Variable Definitions (1 page)
5. Empirical Design (1 page)
6. Potential issues or limitations of your design (1 page)
7. References

Note:

1. You can work in a group up to 3 people maximum (including yourself) and submit one research proposal as a group.
2. Submit the proposal electronically on Canvas. The file name must be in the following format: econ450_proposal_LastName1_LastName2_LastName3.pdf
3. Deadline: **December 18th 11:59 pm**. No extension without an academic concession.

Detailed Instructions:

1. Introduction

- (a) Clearly state your research question – what are the exact dependent variables and independent variables? Specifically, how do you measure changes in corporate income tax rates and firms' innovation activities?
- (b) The motivation has to be academic or policy-oriented. Justify why should we care about your research question?
- (c) Find three most closely related research papers on this topic and summarize their main setting (which country and time periods), design (empirical model), findings, and limitations.

2. Institutional Background

- (a) Describe the institutional and policy background relevant for your empirical framework: summarize all the changes in corporate income tax rates and policy backgrounds behind those changes.
- (b) Describe the setting and time periods for your study.
- (c) Describe the motivation behind changes in corporate income tax rates.

3. Data Sources and Variable Definitions

- (a) Describe data sources that one can access in the future (whether publicly or privately). State the names of the data sources and how/where a researcher can access the data.
- (b) Describe the datasets in more details: which time periods are covered, which samples (i.e., which types of firms?) are covered, and which variables are available.
- (c) Define the key variables (independent, dependent, and control variables) that will be used in your analysis.

4. Empirical Design

- (a) Write down an empirical model for your research design. For example, describe your key dependent variable(s), independent variable(s), and control variable(s) in an equation.
- (b) What is the key identification assumption behind your empirical design? For example, if you're using an IV design, the key assumptions are (1) relevance and (2) exogeneity.
- (c) Describe what are the empirical tests you can implement to show that the identification assumptions are likely satisfied in your setting.

5. Potential Issues or Limitations of your design

- (a) Discuss at least two limitations or potential sources of biases and directions (upward or downward) of the biases in your setting.
- (b) Discuss reasonable ways in which you can address those issues or show that those potential issues are unlikely to be main concerns in your setting. For example, what kind of empirical tests can you implement to address these potential issues?