Abstract

This thesis studies the relationship of income tax progressivity and output volatility. Using our dataset of 31 OECD countries and Bayesian model averaging (BMA) approach to address the model uncertainty issue, we find positive evidence that higher income tax progressivity leads to lower output volatility. This effect is robust to different prior specifications in BMA and to different tax progressivity measures, including our newly constructed measure which is based on the slope of the average tax curve. We also find a strong effect of tax progressivity on the consumption volatility and the volatility of hours worked which we see as the main channels for the reducing effect of tax progressivity on output volatility.