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## Master thesis: A Tax is (Not) a Fine? Examining the Framing of Pigouvian Taxes in an Environmental Context

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*“A tax is a fine for doing well, a fine is a tax for doing wrong.” (Mark Twain)*

From the point of view of economic incentives, fines and Pigouvian taxes are equivalent in that they both deter undesirable behaviors by attaching a cost. Despite their similarity in function, the names of these sanction instruments may carry different social and moral connotations that may affect behavior (Mulder 2018). For example, a “fine” may convey a moral or punitive signal, while a “tax” might imply a compensatory charge. Thus, while a fine may be interpreted as calling for “zero activity”, the compensatory aspect of the tax may go so far as to imply even a desired level of activity in order to raise funds for the public budget, as suggested by the quote attributed to Mark Twain above. Studies suggest that even fines can be seen as compensatory prices, offering individuals a way to “purchase” the right to act in a certain way (Gneezy and Rustichini 2000; Kurz et al. 2014). Thus, the subtle difference in framing the same economic instrument as either a tax or a fine could lead to different behavioral responses. This hypothesis is supported by anecdotal evidence (Dechter 2012).

The objectives of this thesis are twofold: First, to provide a review of experimental evidence comparing behavior under equivalent instruments framed as “tax” versus “fine” or “penalty”. One example for such work by legal scholars is Feldman and Perez (2009). Ideally, the review will focus on experimental economic studies. Second, to design and conduct a simple controlled economic experiment to test whether framing a Pigouvian tax as either a “tax” or a “fine” in an environmental context influences behavior. The student will administer the experiment to a convenience sample (such as fellow students, colleagues, or acquaintances) and analyze the data econometrically.

### Literature:

- Dechter, G. (2012). Call It a Penalty, Call It a Fine, Don't Call It a Tax. The Center for American Progress. <https://www.americanprogress.org/article/call-it-a-penalty-call-it-a-fine-dont-call-it-a-tax/> [accessed October 31, 2024]
- Feldman, Y. and Perez, O. (2009). How Law Changes the Environmental Mind: An Experimental Study of the Effect of Legal Norms on Moral Perceptions and Civic Enforcement. *Journal of Law and Society*, 36(4), 501-535. <https://doi.org/10.1111/j.1467-6478.2009.00481.x>

- Gneezy, U. and Rustichini, A. (2000). A Fine Is a Price. *The Journal of Legal Studies*, 29(1), 1-17. <https://www.journals.uchicago.edu/doi/10.1086/468061>
- Kurz, T., Thomas, W. E. and Fonseca, M. A. (2014). A fine is a more effective financial deterrent when framed retributively and extracted publicly. *J Exp Soc Psych*, 54, 170-177. <https://doi.org/10.1016/j.jesp.2014.04.015>
- Mulder, L. B. (2018). When sanctions convey moral norms. *Eur J Law Econ*, 46(3), 331–342. <https://doi.org/10.1007/s10657-016-9532-5>

Requirements:

- Requirements described on the website of the Chair
- The student should be familiar with the theory of Pigouvian taxes (e.g., from completing coursework in environmental or public economics) and with experimental economics.

Examiner and advisor: Dr. Johannes Diederich

More information, literature, and further guidance are available upon request from Dr. Johannes Diederich, [johannes.diederich@uni-kassel.de](mailto:johannes.diederich@uni-kassel.de)

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