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Prospect Theory and Tax Evasion: A Reconsideration of the Yitzhaki Puzzle

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y

Abstract

puzzle

puzzle *puzzle*

JEL Classi…cation

Keywords

Acknowledgements

1 Introduction

et al

et al.

et al

sensitive

insensitive

R

$n =$

$$_R = \quad (\; ^c \quad) + [1 \quad] \; (\; ^n \quad)$$

Diminishing sensitivity

[

Proposition 2 *Assume* $_t$ 0 *and* $_X = 0$. *Then:*
(i) assuming DARA, there exists a threshold level e_t *such that, at an interior maximum,* 0 *for* $_t$ e_t *and* 0 *for* $_t$ e_t.
(ii) assuming diminishing sensitivity, there exists a threshold level $e_{t;DS}$ *such that, at an interior maximum,* 0 *for*

= ^{c} + [1] ^{n} = [1] + [1]

$_t$ 2 e$_t$ e$_{t;DS}$

= [1]

Corollary 2 *If is the expected value of the gamble, or if* = [1] *as in Hashimzade et al. (in press), then* 0 *whether or not diminishing sensitivity is assumed.*

3.3 Endogenous Audit Probability

0

= 0

2 [0 1]

$_p$ = (^{c}) + [1] (^{n})

= ( )

$_p$ = [ ] h h [1] + 1 i i (1)

[ ] h h [1] + 1 i ^{0}(1) + h [1] 1 i ^{0} (1) i = 0

et al

et al

Proposition 4 *Assume endogenous reference dependence, with* = [1], *homogeneous of degree*

4 Conclusion

References

Journal of Public Economics

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Illicit Activity: The Economics of Crime and Tax Fraud

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Choices, Values, and Frames

Journal

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Econometrica

Public Finance Review

International Economic Review

Economic Inquiry

Journal of Public Economics

Journal of Economic Theory

Journal of Risk and Uncertainty

National Tax Journal

Journal of Public Economics

Appendix

Proof of Proposition 1. (^{n}) (^{c}) 0
[ ] 0

$$\_\_ = \frac{1}{\_} \frac{[\quad] \_(\ ^{c}\ ) \quad [\ (\ ^{n}\ ) \quad \_(\ ^{c}\ )]}{[\quad 1]\_(\ ^{c}\ ) + \ (\ ^{n}\ )} \quad 0$$

Proof of Proposition 5. ( ) =

= [^{c} [ ]] + [1] [^{n}]

$$^0 [\quad] + \quad 1 = \frac{[\ ^0[\quad] \quad]}{}$$

$$\frac{}{} = \frac{^0 [\quad] + \quad 1}{}$$

= 0

$$\frac{}{} = \frac{[\ ^0[\quad] \quad]}{} = \frac{}{[\ .}$$