

Advanced Course (Half Credit) in Public Economics 2018

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Format

There will be one problem set. Some problems will be theoretical and some will be computational (Matlab). You will also have to write a short referee report (3 pages) on a recent paper in the field or hand in a proposal of a research idea of yours that is related to the course.

Content

We will study optimal nonlinear taxation in the spirit of Mirrlees (1971). We'll mainly focus on the version without income effects (Diamond 1998).

- We'll start with the workhorse model and thereby also have a short refresher about mechanism design and optimal control. After a derivation of the optimality conditions with this approach, we will derive them more intuitively with a tax perturbation as in Piketty (1997) and Saez (2001). We will then go to the computer (using Matlab) and see what the formulas quantitatively imply and how sensitive results are. In particular, we will also think a bit more about the optimal top tax rate and will discuss the concept of sufficient statistics (Chetty 2009).
- We will quickly talk about what happens if individuals adjust their labor supply along the extensive margin (Diamond 1980, Saez 2002b).
- We show that the methods cannot only be used to study optimal income taxation but also to evaluate reforms of current real world tax-transfer systems. (Golosov, Tsyvinski, and Werquin 2014)
- We ask to what extent it is desirable for the social planner to tax different goods at different rates (or use commodity taxation at all). We thereby revisit the famous uniform commodity taxation result by Atkinson and Stiglitz (1976) and then discuss also when it is violated (Christiansen 1984, Saez 2002a, Jacobs and Boadway 2014)
- We then consider a very particular good: education/human capital. We ask how the results of the optimal tax problem changes if human capital is endogenous. In particular we will derive the result that education subsidies and redistribution are 'siamese twins' (Bovenberg and Jacobs 2005). Besides this paper, we'll also study some more recent papers on the issue, in particular, we'll have a closer look at Findeisen and Sachs (2016), who study college education subsidies.

References

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