

Course Outline for Dynamic Aspects of Social Insurance

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Format

Below is an outline of what we are going to do. The lecture has two parts of equal length. Concerning grading: students have the option to either (i) solve a problem set or (ii) write a referee report and give a presentation on it.

Part 1: New Dynamic Public Finance

How should the welfare state provide insurance and redistribution if the only constraint on policy instruments is asymmetric information about individual ability and/or preferences? The NDPF literature tackles this question by using a dynamic mechanism-design approach. In contrast to the Ramsey approach to optimal taxation, policies are more complicated: taxes are nonlinear and history dependent. By construction, they are more powerful in terms of welfare.

This literature goes back to Golosov, Kocherlakota, and Tsyvinski (2003), who generalized a result from Rogerson (1985): in dynamic, stochastic environments with private information about idiosyncratic productivity, the so called inverse Euler equation holds which implies an implicit tax on savings. A nice review on this NDPF-approach can be found in Golosov, Tsyvinski, and Werning (2006), or more recently Golosov and Tsyvinski (2015).

We will first go in detail through a simple version version of the canonical model in two periods and derive the key results together. In particular, we will also think about how to implement these allocations with taxes (Kocherlakota 2005, Werning 2011).

We then move on to the latest papers, who explore in depth the dynamics of social insurance and redistribution over the life cycle in more detail (Farhi and Werning 2013, Golosov, Troshkin, and Tsyvinski 2016). We will study the recursive methods to make this problem tractable and discuss the analytical and numerical results of these papers.

Part 2: Optimal Inheritance Taxation

Piketty (2011) shows that the annual flow of inheritances exceeds 10% of the GDP in France and is likely going to grow in the future and numbers are similar for other developed countries (Piketty and Zucman 2015). These empirical papers will be discussed first.

We then study recent papers on inheritance taxation. First, we study a paper that takes a mechanism-design perspective on the topic: Farhi and Werning (2010). Then we study in detail the recent paper by Piketty and Saez (2013) who study optimal inheritance taxation in a variety of macroeconomic models. Depending on students' preferences, we finally also discuss either De Nardi and Yang (2016) or Stantcheva (2015).

References

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