Course Outline for Macro Public Finance II

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Format

We will meet once a week: Tuesday at 3pm. I'll provide slides just in time. Grading will be based on a referee report and a short presentation.

Below is a rough outline of what we are going to do. I also give some references here, but we will cover more papers.

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. 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).

We then move on to the latest papers, who explore the dynamics of social insurance and redistribution over the life cycle in more detail (Farhi and Werning 2013, Golosov, Troshkin, and Tsyvinski 2016) and look at the welfare gains over simpler policies.

We also study the paper by Stantcheva (2015), who studies optimal human capital policies in such an environment.

Finally, we talk about implementations of such optimal allocations. One the one hand we'll study a simple application of the NPDF-framework – the Golosov and Tsyvinski (2006) paper, who study optimal disability insurance. But we'll also study implementation more generally as discussed in Kocherlakota (2005) and Werning (2011).

Part 2: Optimal Unemployment Insurance

Here we study two questions of optimal unemployment insurance design. On the one hand we study how optimal unemployment insurance should vary over the business cycle and will mainly look at Landais, Michaillat, and Saez (2015b) and Landais, Michaillat, and Saez (2015a).

On the other hand, we will study the question of how the generosity of unemployment insurance should change with the length of the spell. We first study the paper by Hopenhayn and Nicolini (1997) and some papers that challenge this result. Then we study a recent and more applied paper on this: Nilsson, Spinnewijn, and Landais (2015).

References

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