Econ 8801, Fall 2011
Department of Economics
University of Minnesota
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This is a class in Public Economics – the economics of taxation, spending, etc.

Below is a rough outline of how the class will go. It is not set in stone. If someone in the class has some ideas about what they would like to do, I'm game for that too.

If you're taking the class for credit, you'll be required to give a presentation. This will consist of about 30 minutes (?) of class time in which you summarize a paper related to the topics that we will be discussing. Some examples of papers that you might discuss/present are on the last couple of pages here.

Rough Outline for Class

1. Optimality of Lump Sum Taxation (Notes) and some related background ideas (a lump sum equivalence result in a Ramsey setting and the taxing of leisure).

2. Two simple results on Ramsey Taxation – linear taxes
a) homothetic utility and the uniform commodity taxation result
b) the Diamond and Mirrlees intermediate goods result

Principal Reference:
"Optimal Fiscal and Monetary Policy," Chari and Kehoe, Handbook of Public Economics, 1999.

3) Why not lump-sum? Non-linear taxation and a Mirrlees example in a static model (Notes)

Principal Reference:
Mirrlees, J. (1971): "An Exploration in the Theory of Optimum Income Taxation,"
Review of Economic Studies, 38, 175–208.

4) Dynamics and the Inverse Euler Equation, (positive savings wedges)

Principal Reference:
Golosov, M., N. Kocherlakota, and A. Tsyvinski (2003): "Optimal Indirect and Capital Taxation," Review of Economic Studies, 70, 569–587.

5) Adding dynamics and immiseration –

Principal Reference:

Thomas, J. and T. Worrall (1990), "Income Fluctuation and Asymmetric Information: An Example of a Repeated Principal-Agent Problem". Journal of Economic Theory, 51, 367-90.

6) Solving immiseration, one method –

Principal Reference:
 "Risk Sharing, Inequality, and Fertility," Hosseini, Jones and Shourideh, 2010.

7) Population and Efficiency –

Principal Reference:
 "Efficiency with Endogenous Population Growth," Golosov, Jones and Tertilt, Econometrica, 2007.

8) Health and the safety net –

Principal Reference:
"The Efficient Level of the Healthcare Social Safety Net," Laurence Ales, Roozbeh Hosseini, and Larry E. Jones.

Further Readings on Topics 3 – 8, and Two other Topics too

3) Why not lump-sum?

"Optimal income taxation: an example with a U-shaped pattern of optimal marginal tax rates," PA Diamond - American Economic Review, 1998

Saez, E., (2001), "Using Elasticities to Derive Optimal Income Tax Rates," Review of Economic Studies, 68, 205-229.

4) The Inverse Euler Equation, positive savings wedges

Kocherlakota, N. R. (2010): The New Dynamic Public Finance, Princeton University Press.

"Capital Taxation: Quantitative Explorations of the Inverse Euler Equation" Emmanuel Farhi and Ivan Werning.

"Optimal Taxation of Entrepreneurial Income: A Mirrleesian Approach to Capital Accumulation," Ali Shourideh, 2011.

5) Adding dynamics and immiseration –

Green, E. J., (1987), "Lending, and the Smoothing of Uninsurable Income," in Edward C. Prescott and Neil Wallace, Eds., *Contractual Arrangements for Intertemporal Trade*, 3-25. University of Minnesota Press, Minnenapolis.

Atkeson, A. and R. E. Lucas, Jr. (1992), "On Efficient Distribution With Private Information," *The Review of Economic Studies,* 59, 427-453.

6) Solving immiseration, other papers/methods:

C. Phelan, (2006), "Opportunity and Social Mobility," *Review of Economic Studies*, vol. 73(2), pp. 487-505.

"Progressive Estate Taxation," Emmanuel Farhi and Ivan Werning, Quarterly Journal of Economics, May 2010, vol 125 (2).

"Inequality and Social Discounting," Emmanuel Farhi and Ivan Werning, Journal of Political Economy, June 2007, Vol. 115(3).

C Sleet, S Yeltekin, (2005), "Social credibility, social patience and long run inequality," manuscript, Carnegie Mellon University.

C Sleet, S Yeltekin, (2006) "Credibility and Endogenous Societal Discounting," Carnegie Mellon University.

7) Population and Efficiency –

Immigration – George Borjas at JFK, Harvard is the person people talk about for this topic, mostly about what are the effects on wages from increased immigration.

Health Externalities ???

8) Health and the safety net –

"The Value of Life and the Rise in Health Spending," Hall and Jones, QJE, 2007.

9) Optimal dynamic contracts with correlated shocks –

Fernandes, A. and C. Phelan (2000), "A Recursive Formulation for Repeated Agency with History Dependence," *Journal of Economic Theory*, 91, 223-247.

Doepke, M. and R. M. Townsend (2006), "Dynamic Mechanism Design with Hidden Income and Hidden Actions," *Journal of Economic Theory*, 126, 235-286.

10) Applying 9 to taxes:

"Insurance and Taxation over the Life Cycle," Emmanuel Farhi and Ivan Werning.

"Optimal Dynamic Taxes," Mikhail Golosov, Maxim Troshkin and Aleh Tsyvinski, July 2010