

Overview

The references are listed in order of appearance, in terms of their relevance within the Lecture. Thus, in Lecture 1, Mirrlees (1971) is relevant in the introduction, and is therefore listed first.

Note that there are two useful surveys of the literature already available.

- Kocherlakota, N., "Advances in Dynamic Optimal Taxation," 2006, *Advances in Economics and Econometrics: Theory and Applications, Ninth World Congress, Volume I*.
- Golosov, M., Tsyvinski, A., and Werning, I., "New Dynamic Public Finance: a User's Guide," in *NBER Macroeconomics Annual 2006*, eds. D. Acemoglu, K. Rogoff, and M. Woodford.

Lecture 1

- Mirrlees, J., "An Exploration in the Theory of Optimum Income Taxation," *RES* 1971,175-208
 - discusses how to set up and solve for optimal labor income taxes in a static setting, when skills are private information.
- Chari, V., and Kehoe, P., "Optimal Fiscal and Monetary Policy," *Handbook of Macroeconomics*, vol 1C, 1999.
 - excellent survey of the "old" dynamic public finance - i.e. the Ramsey approach.
- Diamond, P., and Mirrlees, J., "A Model of Social Insurance with Variable Retirement," *J. Pub. Econ.* 1978, 295-356.
 - optimal social insurance, with stochastic permanent hidden disability.
 - derives optimal intertemporal wedge in this setting.
- Rogerson, W., "Repeated Moral Hazard," *Ecta* 1985, 69-76.
 - derives the "reciprocal" Euler equation in a two-period setting with moral hazard.
- Golosov, M., Kocherlakota, N., and Tsyvinski, A. "Optimal Indirect and Capital Taxation," *RES* 2003, 569-587.
 - derives the "reciprocal" Euler equation for any data generation process of hidden skills.
- Phelan, C., "On the Long-Run Implications of Repeated Moral Hazard," *JET* 1998, vol 79, 174-191.
 - considers an economy with repeated moral hazard (i. i. d. productivity shocks)
 - shows how the long-run behavior of consumption depends on various assumptions.

Lecture 2

- Kocherlakota, N., "Zero Expected Wealth Taxes: A Mirrlees Approach to Dynamic Optimal Taxation," *Ecta* 2005, 1587-1621.
 - sets up a model economy with aggregate shocks, capital, and hidden individual skills.
 - imposes no restrictions on shock processes.
 - shows that optimal wealth taxes must depend on current labor income.
 - constructs an optimal tax system in which any person's expected wealth taxes are always zero.
- Albanesi, S., and Sleet, C., "Dynamic Optimal Taxation with Private Information," *RES* 2006,1-30.
 - sets up a model economy with capital and i.i.d. individual skills.
 - shows that optimal wealth taxes must depend on current labor income.
 - constructs an optimal tax system in which taxes are functions of current wealth and labor income.
- Golosov, M., and Tsyvinski, A., "Designing Optimal Disability Insurance: A Case for Asset Testing," *JPE* 2006, 257-269.
 - sets up a model economy with stochastic permanent hidden disability
 - shows that asset testing is a necessary feature of optimal social insurance.
 - shows that welfare gains from asset testing may be large.
- da Costa, C., and Werning, I., "On the Optimality of the Friedman Rule with Heterogeneous Agents and Non-Linear Income Taxation," *JPE* 2008, 82-112.
 - agents have fixed heterogeneous hidden skills
 - authors allow for nonlinear labor income taxes and inflation
 - provide conditions for optimality of Friedman Rule
- Bassetto, M., and Kocherlakota, N., "On the Irrelevance of Government Debt when Taxes are Distortionary," *JME* 2004, vol. 51, 299-304.
 - assumes that taxes can be functions of past labor incomes.
 - given this assumption, paper proves that an equilibrium allocation is consistent with any path of debt.

- Grochulski, B., and Kocherlakota, N., "Nonseparable Preferences and Optimal Social Security Systems," 2007 working paper, University of Minnesota.
 - shows that optimal allocations can be implemented using simple social security systems.

Lecture 3

- Farhi, E., and Werning, I., "Progressive Estate Taxation," 2006 working paper, MIT.
 - sets up a dynastic model with non-overlapping generations
 - shows that optimal estate taxation is negative and progressive
 - assumes skills are hidden and iid across generations
- Farhi, E., Kocherlakota, N., and Werning, I., "Wealth and Estate Taxation in an Economy with Capital," work in progress.
 - extends above paper to allow for persistent skill shocks across generations.
- Phelan, C., "Opportunity and Social Mobility," *RES* 2006, 487-505.
 - considers intergenerational model with iid shocks across generations.
 - assumes planner weights all generations equally.
 - proves this Pareto optimal allocation is ergodic.
- Farhi, E., and Werning, I., "Inequality and Social Discounting," *JPE* 2007, 365-402.
 - considers Phelan's above model.
 - assumes planner maximizes discounted sum of dynastic utilities.
 - shows that if planner puts enough weight on future, optimal allocation is ergodic.

Preferences

- Grochulski, B., and Kocherlakota, N., "Nonseparable Preferences and Optimal Social Security Systems," 2007 working paper, University of Minnesota.
- Farhi, E., and Werning, I., "Optimal Savings Distortions and Recursive Preferences," *JME* 2008, 21-42.

Quantitative Analysis

- Zhang, Y., "Dynamic Contracting with Persistent Shocks," 2007 working paper, University of Iowa.
- Williams, N., "Persistent Private Information," 2008 working paper, Princeton University.

Labor Income Taxation

- Battaglini, M., and Coate, S., "Pareto Efficient Taxation with Stochastic Abilities," *J. Pub. Econ.*, forthcoming.
- Kapicka, M., "Optimal Taxation with Human Capital Accumulation and Limited Record Keeping," *Rev. Econ. Dyn.* 2006, 612-639.
- Saez, E., "Using Elasticities to Derive Optimal Income Tax Rates," *RES* 2001, 205-229.