

Public economics

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Objectives:

This course will study how taxation affects economic behavior (e.g., labor supply, savings decisions) and economic equilibrium (tax incidence). It will also discuss the optimality arguments for a wide range of government instruments in the presence of informational imperfections and other distortions. Policies that will be studied are: indirect taxation, the taxation of capital, nonlinear taxation of income and the provision of public goods. A reading list will be made available.

Outline:

Part I: Labor income taxation and redistribution, Public goods (LJ)

- Chapter 1: Optimal labor income taxation and redistribution
 - Optimal nonlinear income taxation with intensive margin
 - Optimal nonlinear income taxation with extensive margin
 - Optimal nonlinear income taxation with both margins

Main references:

- Diamond, P. (1998), Optimal income taxation: An example with a U-shaped pattern of optimal marginal tax rates, *American Economic Review*, 88(1), 83-95.
- Jacquet, L., Lehmann, E. and Van der Linden, B. (2013), The optimal marginal tax rates with both extensive and intensive responses, *Journal of Economic Theory*, 148(5): 1770-1805.
- Piketty, T. and Saez, E. (2013), Optimal Labor Income Taxation, *Handbook of Public Economics*, 5, 391-474.
- Saez, E. (2001), Using elasticities to derive optimal income tax rates, *Review of Economics Studies*, 68, 205-229.
- Stiglitz, J. (1982), Self-selection and Pareto efficient taxation, *Journal of Public Economics*, 17, 49-68.
- Chapter 2: Public goods
 - Definitions and Baseline Model,
 - Samuelson Rule,
 - Public Goods with Endogenous Private Provision,
 - Public Goods with Distortionary Taxation

Main references:

- Bergstrom, T., Blume, L. and H. Varian, 1986, On the Private Provision of Public Goods, *Journal of Public Economics*, 29, 1986, 25-49.

- *Hungerman, D., 2005, Are Church and State Substitutes? Evidence from the 1996 Welfare Reform, Journal of Public Economics, 89, 2245-2267.*

Part I:

- Chapter 1 : Fiscal Incidence (PB)
- Chapter 2 : Indirect Taxation (PB)
- Chapter 3 : Capital taxation (PB)

References:

- Salanie, B., Economics of taxation, MIT Press, 2011. Chapters 1, 2, 3, 5.
- Myles, G., Public Economics, Cambridge University Press, 1995. Chapters 2, 4, 8.

Evaluation:

Rule: " $\frac{1}{2}$ CC + $\frac{1}{2}$ CT".

"CC": "contrôle continu" = mid-term evaluation

"CT": "contrôle terminal" = final evaluation

CC: In each part of the course, students are invited to present a research article in front of the class and to raise questions and make comments after the presentations of their classmates. Students can also get a "bonus" on the maximum possible grade of the CC. This possible "bonus" will be based on the homeworks they submit in Part II of the course.

"CT": An exam at the end of the term. More details will be provided during the class.