

Advanced Public Economics

Course Description

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1 Aim of the course

Public economics studies the public sector in its broadest sense.

The aims of this course are to:

- discuss key issues in public economics;
- provide an overview of the theoretical tools and empirical strategies used in the study of the public sector;
- develop a coherent understanding of practical issues in the implementation of public sector policies;
- introduce the research frontier in the covered topics.

Students successfully completing this course should be able to:

- critically discuss key issues in public economics;
- understand the basic economic modeling of the public sector;
- engage critically with the empirical public economics literature;
- understand and engage with the research frontier in the field of public economics.

2 Course outline

After an introductory part, that covers an overview of public economics, we cover three broad areas. First, we discuss taxes and transfers and engage thoroughly with the theoretical and empirical literature on tax incidence, behavioral responses to taxes and transfers, optimal taxation, and income redistribution. Second, we discuss social insurance as an umbrella that covers unemployment insurance, health insurance, and social security and pensions. Finally, we discuss public goods and externalities. We also aim to discuss local provision of public goods and education as an important sector with great involvement of the government.

Below is a brief list of topics. You can find the full reading list in section 4.

Part 0: A introduction to public economics

Part I: Taxation and redistribution

- Tax incidence
- Taxation and efficiency
- Labour supply and income taxes and transfers
- Elasticity of taxable income
- Consumption taxes
- Optimal taxes and transfers
- Tax evasion and avoidance

Part II: Social Insurance

- Unemployment insurance
- Health insurance
- Social security and pensions

Part III: Externalities and public goods

- Externalities
- Public goods
- Local public goods and fiscal federalism
- Education policy

3 Course administration

Lectures and classes

Lectures will be held on *Sunday* and *Tuesday* 13:30-15:00, Class 6. Until further notice classes are held virtually at the following Zoom link:

<https://us02web.zoom.us/j/7305041907?pwd=NXNldmtZanZDZW1KU0owRnRnWU85Zz09>

Meeting ID: 730 504 1907

Passcode: sDH8eb

There will be tutorial classes where you will have a chance to discuss your solutions to assignments. Time and location to be confirmed.

Attendance in both lectures and classes is *mandatory* and I will monitor your record carefully.

Evaluation

- Midterm exam (30%): closed book three hour written exam, time: .
- Final exam (30%): closed book three hour written exam, time: 1401/04/28, 9AM.
- Assignments (15%): 6 problem sets.
- Referee report (10%): You would need to write a referee report on the following paper:

Best, M., Shah, J., & Waseem, M. (2021). Detection Without Deterrence: Long-Run Effects of Tax Audit on Firm Behavior.

- Research Proposal (15%).
- Class participation (5% bonus)

4 Reading list

This course is mostly based on journal papers but the following textbook is also used extensively:

[AS]: A. Atkinson and J. Stiglitz. Lectures on Public Economics, New York: McGraw Hill, 1980.

The following textbooks provide an undergraduate-level explanation of the topics and are very useful for understanding the broad view of topics. I recommend you read relevant chapters from one of these books for each topic.

[G]: J Gruber (2013) Public Finance and Public Policy, 3rd edition, Worth Publishers.

[SR]: J E. Stiglitz and J. K. Rosengard (2015), Economics of the Public Sector, 4th edition, W W Norton Company, Inc.

H Rosen and T Gayer (2007), Public Finance, 8th ed., McGraw Hill.

Other useful textbooks for the course topics are as follows:

[S] B. Salanie. The Economics of Taxation, Cambridge: MIT Press, 2003.

Myles, G. Public Economics, Cambridge University Press, Cambridge, 1995.

Kaplow, L. The Theory of Taxation and Public Economics, Princeton University Press, Princeton, 2008.

The following materials are also useful and we will use them extensively in the course:

Auerbach, A. J. and M. Feldstein (eds.), Handbook of Public Economics, vol. 1 (1985), vol. 2 (1987), vol. 3 (2002), vol. 4 (2002) Elsevier, Amsterdam.

Auerbach, A. J., Chetty, R., Feldstein, M., & Saez, E. (Eds.). (2013). Handbook of public economics (Vol. 5). Newnes.

Institute for Fiscal Studies (2010, 2011). The Mirrlees Review: Reforming the Tax System for the 21st Century, Volume 1 (Dimensions of Tax Design) and Volume 2 (Tax by Design), Oxford University Press, Oxford.

Part 0: A introduction to public economics

Required readings

[AS] Chapters 1, 11.

[SR] Chapter 1.

Further readings

Barr, N. (1992). Economic theory and the welfare state: a survey and interpretation. Journal of Economic literature, 30(2), 741-803.

Dreze, J. H. (1995). Forty years of public economics: a personal perspective. Journal of Economic Perspectives, 9(2), 111-130.

Golosov, M., & Tsyvinski, A. (2015). Policy implications of dynamic public finance. *Annual Review of Economics*, 7(1), 147-171.

Feldstein, M. (2002). The transformation of public economics research: 1970–2000. *Journal of Public Economics*, 86(3), 319-326.

Mullainathan, S., Schwartzstein, J., & Congdon, W. J. (2011). A reduced-form approach to behavioral public finance, *Annual Review of Economics*, 4(1), 511-540.

Sandmo, A. (1999). Asymmetric information and public economics: The Mirrlees-Vickrey Nobel prize. *Journal of Economic Perspectives*, 13(1), 165-180.

Sen, A., Deaton, A., & Besley, T. (2020). Economics with a moral compass? Welfare economics: Past, present, and future. *Annual Review of Economics*, 12, 1-21.

Part I: Taxation and redistribution

Topic 1: Tax incidence

Definition, partial equilibrium tax incidence, general equilibrium models, non-competitive settings.

Required readings

[AS] chapter 6-7.

Chetty, R., A. Looney, and K. Kroft (2009). Salience and taxation: Theory and evidence. *American Economic Review*, 99(4):1145–1177.

Kotlikoff, L. and L. Summers. “Tax Incidence,” in A. Auerbach and M. Feldstein, Volume 2, 1043-1092. 1987.

Kopczuk, W., Marion, J., Muehlegger, E., & Slemrod, J. (2016). Does tax-collection invariance hold? evasion and the pass-through of state diesel taxes. *American Economic Journal: Economic Policy*, 8(2), 251-86.

Further readings

[S] Chapter 1.

Benzarti, Y., & Carloni, D. (2019). Who really benefits from consumption tax cuts? Evidence from a large VAT reform in France. *American Economic Journal: Economic Policy*, 11(1), 38-63.

Benzarti, Y., Carloni, D., Harju, J., & Kosonen, T. (2020). What goes up may not come down: asymmetric incidence of value-added taxes. *Journal of Political Economy*, 128(12), 4438-4474.

Cutler, D. “Tax Reform and the Stock Market: An Asset Price Approach,” *American Economic Review*, 78(5), December 1988, 1107-1117

- Diamond, P., “Tax Incidence in a Two-Good Model,” *Journal of Public Economics*, 9(3), June 1978, 283-299.
- Finkelstein, A. (2009). E-ztax: Tax salience and tax rates. *The Quarterly Journal of Economics*, 124(3), 969-1010.
- Fuest, C., Peichl, A., & Siegloch, S. (2018). Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany. *The American Economic Review*, 108(2), 393–418.
- Fullerton, D., & G. E. Metcalf (2002). Tax incidence. *Handbook of public economics*, 4, 1787-1872.
- Harberger, A. C. (1962). The incidence of the corporation income tax. *Journal of Political Economy*, 70(3):215– 240
- Harju, J., Kosonen, T., & Skans, O. N. (2018). Firm types, price-setting strategies, and consumption-tax incidence. *Journal of Public Economics*, 165, 48-72.
- Poterba, J. “Tax Subsidies to Owner-Occupied Housing: An Asset Market Approach,” *Quarterly Journal of Economics*, 99(4), November 1984, 729-752.
- Rothstein, J. (2010). Is the EITC as good as an NIT? Conditional cash transfers and tax incidence. *American economic Journal: economic policy*, 2(1), 177-208.
- Saez, E., Schoefer, B., & Seim, D. (2019). Payroll taxes, firm behavior, and rent sharing: Evidence from a young workers’ tax cut in Sweden. *American Economic Review*, 109(5), 1717-63.
- Suárez Serrato, J. C., & Zidar, O. (2016). Who benefits from state corporate tax cuts? A local labor markets approach with heterogeneous firms. *American Economic Review*, 106(9), 2582-2624.

Topic 2: Taxation and efficiency

Efficiency loss of taxation, income effects, welfare economics.

Required readings

Auerbach, A. “The Theory of Excess Burden and Optimal Taxation”, in A. Auerbach and M. Feldstein, *Handbook of Public Economics*, Volume 1, 61-127. Amsterdam: North Holland, 1985.

Chetty R. (2009). “Sufficient Statistics for Welfare Analysis: A Bridge Between Structural and Reduced-Form Methods.” *Annual Review of Economics*, 1, 451-488.

Kleven, H. J. (2021). Sufficient statistics revisited. *Annual Review of Economics*, 13, 515-538.

Further readings

[S] Chapter 1.

Auerbach, A. and J. Hines, “Taxation and Economic Efficiency”, in A. Auerbach and M. Feldstein, Handbook of Public Economics, Volume 3, Chapter 21, Amsterdam: North Holland, 2002.

Bhandari, A., Evans, D., Golosov, M., & Sargent, T. (2021). Efficiency, Insurance, and Redistribution Effects of Government Policies. working paper.

Chetty, R., Looney, A., & Kroft, K. (2009). Salience and taxation: Theory and evidence. American economic review, 99(4), 1145-77.

Golosov, M., Tsyvinski, A., & Werquin, N. (2014). A variational approach to the analysis of tax systems (No. w20780). National Bureau of Economic Research.

Harberger, A. “The Measurement of Waste”, American Economic Review, 54(3), 1964, 58-76.

Hausman, J. A. (1981). Exact consumer’s surplus and deadweight loss. American Economic Review, 71(4):662– 76.

Hines, J. R. (1999). Three sides of Harberger triangles. Journal of Economic Perspectives, 13(2), 167-188.

Topic 3: Labour supply and income taxes and transfers

Theoretical models of labour supply, empirical strategies to estimate labour supply elasticities, key findings.

Required readings

[AS] chapter 2

Blundell, R. and T. MaCurdy (1999). “Labor Supply: A Review of Alternative Approaches,” in O. Ashenfelter and D. Card (eds.), Handbook of Labor Economics vol. 3A, Elsevier, Amsterdam.

Chetty, R., Friedman, J. N., Olsen, T., & Pistaferri, L. (2011). Adjustment costs, firm responses, and micro vs. macro labor supply elasticities: Evidence from Danish tax records. The quarterly journal of economics, 126(2), 749-804.

Eissa, N. (1995). “Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment.” NBER Working Paper No. 5023.

Eissa, N. and J. Liebman (1996). “Labor Supply Response to the Earned Income Tax Credit.” Quarterly Journal of Economics 61, 605-37.

Further readings

Ashenfelter, O. and M. Plant, “Non-Parametric Estimates of the Labor Supply Effects of Negative Income Tax Programs”, Journal of Labor Economics, vol. 8, 1990, 396-415.

Benzarti, Y., & Harju, J. (2021). Can payroll tax cuts help firms during recessions?. Journal of Public Economics, 200, 104472.

Blundell, R., A. Duncan and C. Meghir, “Estimating Labor Supply Responses Using Tax Reforms,” *Econometrica* 66 (July 1998), 827-862.

Blundell, R., Bozio, A. and G. Laroque. (2013), “Extensive and Intensive Margins of Labour Supply: Work and Working Hours in the US, UK and France”, *Fiscal Studies*, 34(1), 1-29.

Chetty, Raj. (2012) “Bounds on Elasticities with Optimization Frictions: A Synthesis of Micro and Macro Evidence on Labor Supply”, *Econometrica* 80(3), 969-1018.

Chetty, Raj, John N. Friedman, and Emmanuel Saez, “Using Differences in Knowledge across Neighborhoods to Uncover the Impacts of the EITC on Earnings”, *American Economic Review* 103.7 (2013): 2683-2721.

Kleven, H. J. (2016). Bunching. *Annual Review of Economics*, 8, 435-464.

Kleven, H. and M. Waseem (2013). “Using Notches to Uncover Optimization Frictions and Structural Elasticities: Theory and Evidence from Pakistan.” *Quarterly Journal of Economics* 128, 669-723.

Lemieux, T. , B. Fortin, and P. Fréchet (1994), “The Effect of Taxes on Labor Supply in the Underground Economy”, *American Economic Review*, 84, 231-254.

MaCurdy, T. (1981), “An Empirical Model of Labor Supply in a Life Cycle Setting”, *Journal of Political Economy*, 89(6), 1059-1089

Meyer, B. and D. Rosenbaum (2001). “Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers.” *Quarterly Journal of Economics* 66, 1063-1114.

Michalopoulos, C., P. K. Robins, and D. Card (2005). “When financial work incentives pay for themselves: evidence from a randomized social experiment for welfare recipients.” *Journal of Public Economics* 89, 5-29

Moffitt, R. (2002). Welfare Programmes and Labour Supply. AJ Auerbach & M. Feldstein (Eds.), *Handbook of Public Economics* pp. 2393-2430.

Tazhitdinova, A. (2022). Increasing hours worked: Moonlighting responses to a large tax reform. *American Economic Journal: Economic Policy*, 14(1), 473-500.

Topic 4: Elasticity of taxable income

Definition, empirical strategies to estimate ETI, key findings.

Required readings

Feldstein, M. (1995). “The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act.” *Journal of Political Economy* 103, 551-572.

Kleven, H. J., & Schultz, E. A. (2014). Estimating taxable income responses using Danish tax reforms. *American Economic Journal: Economic Policy*, 6(4), 271-301.

Saez, E. (2010). Do taxpayers bunch at kink points?. *American economic Journal: economic policy*, 2(3), 180-212.

Saez, E., J. Slemrod, and S. Giertz (2010), “The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review”, *Journal of Economic Literature* 50(1), 2012, 3-50.

Further readings

Chetty, R. (2009). “Is the Taxable Income Elasticity Sufficient to Calculate Deadweight Loss? The Implications of Evasion and Avoidance.” *American Economic Journal: Economic Policy* 1, 31-52.

Feldstein, M. (1999). “Tax Avoidance and the Deadweight Loss of the Income Tax.” *Review of Economics and Statistics* 81, 674-680.

Goolsbee, A. (2000). “What Happens When You Tax the Rich? Evidence from Executive Compensation.” *Journal of Political Economy* 108, 352-378.

Gruber, J. and E. Saez (2002). “The Elasticity of Taxable Income: Evidence and Implications.” *Journal of Public Economics* 84, 1-32.

He, D., Peng, L., & Wang, X. (2021). Understanding the elasticity of taxable income: A tale of two approaches. *Journal of Public Economics*, 197, 104375.

Kopczuk, W. (2005). “Tax Bases, Tax Rates, and the Elasticity of Reported Income.” *Journal of Public Economics* 89, 2093-2119.

Imbens, G. W., Rubin, D. B., & Sacerdote, B. I. (2001). Estimating the effect of unearned income on labor earnings, savings, and consumption: Evidence from a survey of lottery players. *American Economic Review*, 91(4), 778-794.

Topic 5: Consumption Taxes

Ramsey rule of taxation, equity-efficiency trade-off, Value-added tax

Required readings

[AS] Chapter 12.

[S] Chapter 3.

Pomeranz, D. (2015), “No taxation without information: Deterrence and self-enforcement in the value added tax”, *American Economic Review*, 105(8), 2539-69.

Waseem, M. (2022). The role of withholding in the self-enforcement of a value-added tax: Evidence from pakistan. *The Review of Economics and Statistics*, 104 (2): 336–354.

Further readings

- Allcott, H., Lockwood, B. B., & Taubinsky, D. (2019). Regressive sin taxes, with an application to the optimal soda tax. *The Quarterly Journal of Economics*, 134(3), 1557-1626.
- Auerbach, A. (1985). "The Theory of Excess Burden and Optimal Taxation," in A. Auerbach and M. Feldstein (eds.), *Handbook of Public Economics* vol. 1, Elsevier, Amsterdam.
- Bachas, P., Gadenne, L., & Jensen, A. (2020). Informality, Consumption Taxes, and Redistribution (No. w27429). National Bureau of Economic Research.
- Benedek, D., De Mooij, R. A., Keen, M., & Wingender, P. (2020). Varieties of VAT pass through. *International Tax and Public Finance*, 27(4), 890-930.
- Bento, A. M., Goulder, L. H., Jacobsen, M. R., & von Haefen, R. H. (2009). Distributional and Efficiency Impacts of Increased US Gasoline Taxes. *The American Economic Review*, 99(3), 667-699.
- Benzarti, Y., & Tazhitdinova, A. (2021). Do value-added taxes affect international trade flows? evidence from 30 years of tax reforms. *American Economic Journal: Economic Policy*, 13(4), 469-89.
- Besley, T., & Jewitt, I. (1995). Uniform taxation and consumer preferences. *Journal of Public Economics*, 58(1), 73-84.
- Carrillo, P., Pomeranz, D., and Singhal, M. (2017). Dodging the taxman: Firm misreporting and limits to tax enforcement. *American Economic Journal: Applied Economics*, 9(2):144-64.
- De Paula, A. and Scheinkman, J. A. (2010). Value-added taxes, chain effects, and informality. *American Economic Journal: Macroeconomics*, 2(4):195-221.
- De Paula, A. and Scheinkman, J. A. (2011). The informal sector: An equilibrium model and some empirical evidence from Brazil. *Review of Income and Wealth*, 57:S8-S26.
- Diamond, P. (1975). "A Many-Person Ramsey Tax Rule." *Journal of Public Economics* 4, 335-342.
- Keen, M. and Lockwood, B. (2010). The value added tax: Its causes and consequences. *Journal of Development Economics*, 92(2):138-151.
- Kleven, H.J. (2004). "Optimum Taxation and the Allocation of Time." *Journal of Public Economics* 88, 545-557.
- Hoseini, M. and Briand, O. (2020). Production efficiency and self-enforcement in value-added tax: Evidence from state-level reform in India. *Journal of Development Economics*, 144:102462.
- Saez, E. (2002). "The Desirability of Commodity Taxation Under Non-Linear Income Taxation and Heterogeneous Tastes," *Journal of Public Economics*, 83, pp. 217-230.
- Waseem, M. (2022). Overclaimed Refunds, Undeclared Sales, and Invoice Mills: Nature and Extent of Noncompliance in a Value-Added Tax. Working Paper.

Topic: Corporate taxation

Required readings

[AS] Chapter 5.

Auerbach, A. (1983), "Taxation, Corporate Financial Policy, and the Cost of Capital", *Journal of Economic Literature* 21, 905-940,

R. Chetty and E. Saez, "Dividend Taxes and Corporate Behavior: Evidence from the 2003 Dividend Tax Cut", *Quarterly Journal of Economics*, 120(3), August 2005, 791-833.

R. Chetty and E. Saez, "Dividend and Corporate Taxation in an Agency Model of the Firm," *AEJ: Economic Policy*, 2(3), August 2010, 1-31.

Further readings

Alstadsæter, A., Jacob, M., & Michaely, R. (2017). Do dividend taxes affect corporate investment?. *Journal of public Economics*, 151, 74-83.

Devereux, M., R. Griffith, and A. Klemm. "Corporate Income Tax Reforms and International Tax Competition." *Economic Policy* 17: 449-495, 2002.

Goodman, L., Patel, E., & Saunders-Scott, M. (forthcoming). Implications of Tax Loss Asymmetry for Owners of S-Corporations. *American Economic Journal: Economic Policy*.

Gordon R. and J. Mackie-Mason, 1994. "Tax distortions to the choice of organizational form," *Journal of Public Economics*, Elsevier, vol. 55(2), pages 279-306.

Hassett, K. and R. G. Hubbard, "Tax Policy and Business Investment", in A. Auerbach and M. Feldstein, eds., *Handbook of Public Economics*, Volume 3 (Amsterdam: Elsevier, 2002), 1294- 1343.

House, C. and M. Shapiro, "Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation," *American Economic Review* 98 (2008), 737-768.

Laffitte, S., & Toubal, F. (forthcoming). Multinationals' Sales and Profit Shifting in Tax Havens. *American Economic Journal: Economic Policy*.

Liu, Li, Tim Schmidt-Eisenlohr, and Dongxian Guo. "International Transfer Pricing and Tax Avoidance: Evidence from Linked Trade-Tax Statistics in the United Kingdom." *Review of Economics and Statistics* 102, no. 4 (2020): 766-778.

Summers, L. H., Bosworth, B. P., Tobin, J., & White, P. M. (1981). Taxation and Corporate Investment: A q-Theory Approach. *Brookings Papers on Economic Activity*, 1981(1), 67-140.

Topic : Capital income taxation

Aiyagari, S. R. (1995). Optimal Capital Income Taxation with Incomplete Markets, Borrowing Constraints, and Constant Discounting. *Journal of Political Economy*, 103(6), 1158–1175.

Chamley, C. (1981). The welfare cost of capital income taxation in a growing economy. *Journal of Political Economy*, 89(3), 468-496.

Chamley, C. (1986). Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives. *Econometrica*, 54(3), 607–622.

Diamond, P., & Spinnewijn, J. (2011). Capital income taxes with heterogeneous discount rates. *American Economic Journal: Economic Policy*, 3(4), 52-76.

Feldstein, M. (1978). The welfare cost of capital income taxation. *Journal of Political Economy*, 86(2, Part 2), S29-S51.

Gordon, R. H. (2004). Taxation of interest income. *International Tax and Public Finance*, 11(1), 5-15.

Gordon, R. H., & Kopczuk, W. (2014). The choice of the personal income tax base. *Journal of Public Economics*, 118, 97-110.

[S] Chapter 6.

Topic: Wealth Taxes

Auerbach, A. J., & Hassett, K. (2015). Capital taxation in the twenty-first century. *American Economic Review*, 105(5), 38-42.

Brülhart, M., Gruber, J., Krapf, M., & Schmidheiny, K. (Forthcoming). Behavioral Responses to Wealth Taxes: Evidence from Switzerland. *American Economic Journal: Economic Policy*.

Kopczuk, W. (2013). Taxation of intergenerational transfers and wealth. In *Handbook of public economics* (Vol. 5, pp. 329-390). Elsevier.

Londoño-Vélez, J., & Ávila-Mahecha, J. (2021). Enforcing wealth taxes in the developing world: Quasi-experimental evidence from Colombia. *American Economic Review: Insights*, 3(2), 131-48.

Scheuer, F., & Slemrod, J. (2021). Taxing our wealth. *Journal of Economic Perspectives*, 35(1), 207-30.

Topic 6: Optimal taxes and transfers

Optimal income tax and transfers, Mirrlees and beyond, optimal transfer programs.

Required readings

[AS] Chapter 13.

[S] Chapter 4 and 8.

Diamond, P. and E. Saez (2011). "From Basic Research to Policy Recommendations: The Case for a Progressive Tax." *Journal of Economic Perspectives* 25, 165-190.

Piketty, T. and E. Saez (2013). "Optimal Labor Income Taxation," in A. Auerbach, R. Chetty, M. Feldstein, and E. Saez (eds.), *Handbook of Public Economics* vol. 5, Elsevier, Amsterdam.

Saez, E. (2002). "Optimal Income Transfer Programs: Intensive Versus Extensive Labor Supply Responses." *Quarterly Journal of Economics* 117, 1039-1073.

Further readings

Akerlof, G. (1978). "The Economics of 'Tagging' as Applied to Optimal Income Tax, Welfare Programs, and Manpower Planning." *American Economic Review* 68, 8-19.

Atkinson, A. and J. Stiglitz (1976). "The design of tax structure: Direct versus indirect taxation." *Journal of Public Economics* 6, 55-75.

Besley, T. and S. Coate (1992). "Workfare versus Welfare: Incentive Arguments for Work Requirements in Poverty-Alleviation Programs." *American Economic Review* 82, 249-61.

Diamond, P. (1998). "Optimal Income Taxation: An Example with a U-Shaped Pattern of Optimal Marginal Tax Rates." *American Economic Review* 88, 83-95.

Diamond, P.A. and J.A. Mirrlees (1971). "Optimal Taxation and Public Production, Part I: Production Efficiency, Part II: Tax Rules." *American Economic Review* 61, 8-27, 261-278.

Diamond, P. and Saez, E. (2011). "The Case for a Progressive Tax: From Basic Research to Policy Recommendations," *Journal of Economic Perspectives*, 25(4), pp. 165-190.

Golosov, M., Troshkin, M., & Tsyvinski, A. (2011). Optimal taxation: merging micro and macro approaches. *Journal of Money, Credit and Banking*, 43, 147-174.

Hoynes, H. and Patel, A. (2017) "Eective Policy for Reducing Poverty and Inequality? The Earned Income Tax Credit and the Distribution of Income", *Journal of Human Resources*, 1115-7494.

Kaplow, L. (2006). "On the Undesirability of Commodity Taxation Even When Income Taxation is Not Optimal." *Journal of Public Economics* 90, 1235-1250.

Kleven, H., C. Kreiner, and E. Saez (2009). "The Optimal Income Taxation of Couples." *Econometrica* 77, 537-560.

Laroque, G. (2005). "Indirect taxation is superfluous under separability and taste homogeneity: A simple proof." *Economic Letters* 87, 141-144.

- Mankiw, G. and M. Weinzierl (2010). "The Optimal Taxation of Height: A Case Study of Utilitarian Income Redistribution." *American Economic Journal: Economic Policy* 2, 155-176.
- Mirrlees, J. (1971). "An Exploration in the Theory of Optimal Income Taxation." *Review of Economic Studies* 38, 175-208.
- Nichols, A. and R. Zeckhauser (1982). "Targeting Transfers through Restrictions on Recipients." *American Economic Review Papers & Proceedings* 72, 372-77.
- Piketty, T., Saez, E. and Stantcheva, S. (2014). "Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities," *American Economic Journal: Economic Policy*, 6(1), pp. 230-271.
- Saez, E. (2001). "Using Elasticities to Derive Optimal Income Tax Rates." *Review of Economics Studies* 68, 205-229.
- Saez, E. (2002). "The Desirability of Commodity Taxation Under Non-Linear Income Taxation and Heterogeneous Tastes." *Journal of Public Economics* 83, 217-230.
- Saez, E., & Stantcheva, S. (2016). Generalized social marginal welfare weights for optimal tax theory. *American Economic Review*, 106(1), 24-45.
- Simula, L., & Trannoy, A.(forthcoming). Gini and Optimal Income Taxation by Rank. *American Economic Journal: Economic Policy*.

Topic 7: Tax evasion and avoidance

A simple model of tax evasion, taxation in developing countries, empirical findings of evasion elasticities.

Required readings

- Kleven, H. J., M. Knudsen, C. T. Kreiner, S. Pedersen, and E. Saez (2011). "Unwilling or Unable to Cheat? Evidence from a Tax Audit Experiment in Denmark." *Econometrica* 79, 651-692.
- Keen, M., & Slemrod, J. (2017). Optimal tax administration. *Journal of Public Economics*, 152, 133-142.
- Kleven, H. J. (2014). How can Scandinavians tax so much?. *Journal of Economic Perspectives*, 28(4), 77-98.
- Pomeranz, D., & Vila-Belda, J. (2019). Taking state-capacity research to the field: Insights from collaborations with tax authorities. *Annual Review of Economics*, 11, 755-781.
- Slemrod, J. and S. Yitzhaki (2002). "Tax Avoidance, Evasion and Administration," in A. Auerbach and M. Feldstein (eds.), *Handbook of Public Economics* Vol. 3, Elsevier, Amsterdam.

Further readings

- Advani, A., Elming, W., & Shaw, J. (2017). The dynamic effects of tax audits. *The Review of Economics and Statistics*, 1-45.
- Allingham, M. and A. Sandmo (1972). "Income Tax Evasion: A Theoretical Analysis." *Journal of Public Economics* 1, 323-338.
- Alstadsæter, A., Johannesen, N., & Zucman, G. (2018). "Tax evasion and inequality", *American Economic Review* (forthcoming).
- Almunia, M., & Lopez-Rodriguez, D. (2018). Under the radar: The effects of monitoring firms on tax compliance. *American Economic Journal: Economic Policy*, 10(1), 1-38.
- Andreoni, J., B. Erard, and J. Feinstein (1998). "Tax Compliance." *Journal of Economic Literature* 36, 818-860.
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- Balán, P., Bergeron, A., Tourek, G., & Weigel, J. L. (2022). Local Elites as State Capacity: How City Chiefs Use Local Information to Increase Tax Compliance in the DR Congo. *American Economic Review*, 112 (3): 762-97.
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Part II: Social Insurance

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Topic 8: Unemployment insurance

Unemployment insurance, moral hazard, empirical findings.

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Topic 9: Health insurance

Health insurance and adverse selection, empirical tests of adverse selection.

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Topic 10: Social security and pensions

Definitions of various pension schemes, retirement-savings puzzle, empirical evidence on behavioral responses to pension incentives.

Required readings

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Part III: Externalities and public goods

Topic 11: Externalities

Externalities and pigouvian taxation, environmental externalities.

Required readings

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Topic 12: Public goods

Public goods, private provision of public goods, public provision of private goods.

Required readings

[AS] Chapter 16.

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Topic 13: Local public goods and fiscal federalism

Theoretical and empirical models of decentralized public spending.

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[G] Chapter 10.

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Topic 14: Education policy

Public provision of education, model of educational choice, school competition.

Required readings

[G] Chapter 11.

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