

University of Alicante
Second Year Q.E.D. Program

Public Economics
Winter 2012

Faculty: Iñigo Iturbe-Ormaetxe, office 4, ext. 3227, iturbe@merlin.fae.ua.es
Location: Seminar 1
Office hours: By appointment
Schedule: Mondays 15:00-18:00
Web page: <http://merlin.fae.ua.es/iturbe/PEQED1112.html>

Overview: Welcome to Public Economics. This is a course on the basics of the economics of public intervention. Depending on the time we will cover the topics of Taxation, Social Insurance, Public Goods, Social Security and Education.

Grading: Presentations, short paper, participation in class.

Useful General References

Atkinson, A. and J. Stiglitz, Lectures in Public Economics, New York: McGraw Hill, 1980

Auerbach, A., and M. Feldstein, Handbook of Public Economics: Vol. 1-4, Amsterdam: North Holland, 1985, 1987, 2002, and 2003

Gruber, J., Public Finance and Public Policy, Worth Publishers, 2004 (undergraduate text)

Myles, G., Public Economics, New York: Cambridge University Press, 1995

Rosen, H., Public Finance, 6th edition, Homewood, Illinois: Richard D. Irviwn, 2002 (undergraduate text)

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

Stiglitz, J., Economics of the Public Sector. 2nd Ed. New York: Norton, 1988 (undergraduate text)

I will also publish classnotes for the lectures in the website of the course. You may also find interesting Raj Chetty's classnotes at Harvard:

(http://obs.rc.fas.harvard.edu/chetty/public_lecs.html)

Emmanuel Saez (Berkeley) has also very interesting classnotes:

(<http://elsa.berkeley.edu/~saez/course/course.html>)

Schedule and Readings (Required readings are marked with *)Weeks 1-3: **Taxation**

Acemoglu, D., Golosov M. and A. Tsyvinski, "Political Economy of Ramsey Taxation." *Journal of Public Economics*, 2011 (forthcoming).

Andersen, T., "Why do Scandinavians Work?," CESifo Working Paper 3068, 2010.

Atkinson and Stiglitz, Chapters 11, 12, 13, and 14.

Atkinson, A. and J. Stiglitz, "The Design of Tax Structure: Direct Versus Indirect Taxation." *Journal of Public Economics*, 6, 55-75, 1976.

* Auerbach, A. and J. Hines, "Taxation and Economic Efficiency." Chapter 21 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. 3, Elsevier Science Publishers B. V. (North-Holland), 2002.
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Auerbach, A., "The Choice between Income and Consumption Taxes: A Primer," NBER Working Paper 12307, 2006.

Bernheim, D., "Taxation and Savings." Chapter 18 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. 3, Elsevier Science Publishers B. V. (North-Holland), 2002.

Blomquist, S. and L. Micheletto, "Age Related Optimal Income Taxation", *Scandinavian Journal of Economics* 110, 1, 45-71, 2008.

Blundell, R. and T. MaCurdy, "Labor Supply: A Review of Alternative Approaches." Chapter 27 in *Handbook of Labor Economics* (O. Ashenfelter and D. Card, eds.), Vol. 3, Elsevier Science Publishers B. V. (North-Holland), 1999.

Chamley, C., "Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives," *Econometrica* 54, 607-22, 1986.

Chetty, R., "Is the Taxable Income Elasticity Sufficient to calculate Deadweight Loss? The Implications of Evasion and Avoidance," *American Economic Journal: Economic Policy* 1 (2): 31-52, 2009.

* Chetty, R., A. Looney and K. Kroft, "Salience and Taxation: Theory and Evidence," *American Economic Review* 99(4): 1145-1177, 2009.

Conesa, J. C., S. Kitao, and D. Krueger, "Taxing Capital? Not a Bad Idea after All!," *American Economic Review*, 99, 1, 25-48, 2009.

Congdon, W., J. Kling, and S. Mullainathan, "Behavioral Economics and Tax Policy," NBER Working Paper 15328, 2009.

Corlett, W. and D. Hague, "Complementarity and the Excess Burden of Taxation," *Review of Economic Studies* 21, 21-30, 1953.

Dahan, M. and M. Strawczynski, "Optimal Income Taxation: An Example with a U-Shaped Pattern of Optimal Marginal Tax Rates: Comment," *American Economic Review* 90 (3), 681-686, 2000.

Deaton, A., "Optimal Taxes and the Structure of Preferences," *Econometrica* 49, 1245-60, 1981.

Diamond, P., "A Many-Person Ramsey Tax Rule," *Journal of Public Economics* 4, 335-342, 1975.

* Diamond, P., "Optimal Income Taxation: An Example with a U-Shaped Pattern of Optimal Marginal Tax Rates," *American Economic Review* 88 (1), 83-95, 1998.

Diamond, P. and J. Mirrlees, "Optimal Taxation and Public Production I: Production Efficiency," *American Economic Review* 61 (1), 8-27, 1971.

Diamond, P. and J. Mirrlees, "Optimal Taxation and Public Production II: Tax Rules," *American Economic Review* 61 (3), 261-278, 1971.

Diamond, P. and J. Spinnewijn, "Capital Income Taxes with Heterogeneous Discount Rates," NBER Working Paper 15115, 2009.

Diamond, P. and E. Saez, "The Case for a Progressive Tax: From Basic Research to Policy Recommendations," CESIFO Working Paper 3548, 2011.

Erosa, A. and M. Gervais, "Optimal Taxation in Life-Cycle Economies." *Journal of Economic Theory* 105, 338-369, 2002.

Feldstein, M., "Tax Avoidance and the Deadweight Loss of the Income Tax." *The Review of Economics and Statistics* 81 (4), 674-680, 1999.

Feldstein, M. "Effects of Taxes on Economic Behavior," NBER Working Paper 13745, 2008.

Fleurbaey, M., "Is Commodity Taxation Unfair?," *Journal of Public Economics* 90, 1765-1787, 2006.

Fullerton, D. and G. Metcalf, "Tax Incidence." Chapter 26 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. 4, Elsevier Science Publishers B. V. (North-Holland), 2003.

(Also available as NBER Working Paper 8829 (<http://papers.nber.org/papers/W8829>))

Golosov, M., A. Tsyvinski, and I. Werning, "New Dynamic Public Finance: A User's Guide." In *NBER Macroeconomics Annual 2006*. Edited by D. Acemoglu, K. Rogoff, and M. Woodford, MIT Press, pp. 317-363, 2007.

Goulder, L. and R. Williams, "The Substantial Bias from Ignoring General Equilibrium Effects in Estimating Excess Burden, and a Practical Solution," *Journal of Political Economy* 111 (4), 898-927, 2003.

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

Harberger, A., "The incidence of the Corporation Tax," *Journal of Political Economy* 70, 215-240, 1962.

Hausman, J., "Exact Consumer Surplus and Deadweight Loss," *American Economic Review* 71 (4), 662-676, 1981.

Hines, J., "Taxing Consumption and Other Sins," *Journal of Economic Perspectives* 21, 1, 49-68, 2007.

Judd, K., "Redistributive Taxation in a Simple Perfect Foresight Model," *Journal of Public Economics* 28, 59-83, 1985.

Judd, K., "Capital-Income Taxation with Imperfect Competition," *American Economic Review* 92, 2, 417-421, 2002.

Kaplow, L., "On the (Ir)Relevance of Distribution and Labor Supply Distortion to Government Policy," *Journal of Economic Perspectives* 18, 4, 159-175, 2004.

Kaplow, L., "Optimal Income Transfers," NBER Working Paper 12284, 2006.

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

Kaplow, L., "Taxing Leisure Complements," NBER Working Paper 14397, 2008.

Keane, M., "Labor Supply and Taxes: A Survey," Sidney University of Technology Working Paper 160, 2010.

Kleven, H., C. Kreiner, and E. Saez, "The Optimal Income Taxation of Couples," *Econometrica* 77, 2, 537-560, 2009.

Kocherlakota, N., "Zero Expected Wealth Taxes: A Mirrlees Approach to Dynamic Optimal Taxation," *Econometrica* 73, 5, 1587-1621, 2005.

Kotlikoff, L., and L. Summers, "Tax Incidence." Chapter 16 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. 2, Elsevier Science Publishers B. V. (North-Holland), 1987.

Krusell, P., B. Kurusçu, and A. Smith, "Temptation and Taxation," *Econometrica* 78 (6), 2063-2084, 2010.

Laroque, G., "Indirect Taxation is Superfluous under Separability and Taste Homogeneity: a Simple Proof." *Economics Letters* 87, 141-4, 2005.

* Liebman, J., and R. Zeckhauser, "Schmeduling," Harvard University, Kennedy School of Government Working Paper, 2004.

Mankiw, G., and M. Weinzierl, "The Optimal Taxation of Height: A Case Study of Utilitarian Income Redistribution", forthcoming in *American Economic Journals: Economic Policy*.

Mankiw, G., M. Weinzierl, and D. Yagan, "Optimal Taxation in Theory and Practice", NBER Working Paper 15071, June 2009.

Mirrles, J. A., "An Exploration in the Theory of Optimum Income Taxation," *Review of Economic Studies* 38 (2), 175-208, 1971.

Myles, Chapters 4, 5, 7, and 8.

Naito, H., "Atkinson-Stiglitz Theorem with Endogenous Human Capital Accumulation," *The B. E. Journal of Economic Analysis and Policy* 7, 1, Article 46, 2007.

Piketty, T. and E. Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics* 118, 1-39, 2003.

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

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

Saez, E., "The Desirability of Commodity Taxation Under Non-Linear Income Taxation and Heterogeneous Tastes," *Journal of Public Economics* 83, 217-230, 2002.

Saez, E., and R. Chetty, "Optimal Taxation and Social Insurance with Endogenous Private Insurance," NBER Working Paper 14403, 2008.

* Saez, E., J. Slemrod and S. Giertz, "The Elasticity of Taxable Income with respect to Marginal Tax Rates: A Critical Review," NBER Working Paper 15012, 2009.

Salanie, Chapters 1-9.

Samuelson, P., "Theory of Optimal Taxation," *Journal of Public Economics* 30, 137-43, 1986.

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Summers, L., "Taxation and Capital Accumulation in a Life Cycle Growth Model," *American Economic Review* 71, 533-554, 1981.

Tuomala, M., "On the Optimal Income Taxation," *Journal of Public Economics* 23, 351-366, 1984.

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Werning, I., "Optimal Fiscal Policy with Redistribution," *Quarterly Journal of Economics* 122, 925-968, 2007.

Young, P., "Progressive Taxation and Equal Sacrifice," *American Economic Review* 8, 1, 253-266, 1990.

* Young, P., "Progressive Taxation." Chapter 6 in his book *Equity*, Princeton University Press, 1994.

Weeks 4-5: Social Insurance

Acemoglu, D. and J. Angrist, "Consequences of Employment Protection? The Case of the Americans with Disabilities Act," *Journal of Political Economy* 109(5), 915-957, 2001.

Baily, M., "Some Aspects of Optimal Unemployment Insurance." *Journal of Public Economics* 10, 379-402, 1978.

* Chetty, R., "A General Formula for the Optimal Level of Social Insurance." *Journal of Public Economics* 90, 1879-1901, 2006.

Chetty, R. and A. Looney, "Consumption Smoothing and the Welfare Consequences of Social Insurance in Developing Countries," *Journal of Public Economics* 90, 2351-2356, 2006.

Chetty, R. "Moral Hazard vs. Liquidity and Optimal Unemployment Insurance," *Journal of Political Economy* 116(2), 173-234, 2008.

Chetty, R. and A. Szeidl, "Consumption Commitments and Risk Preferences" *Quarterly Journal of Economics* 122(2), 831-877, 2007.

Feldstein, M. "Temporary Layoffs in the Theory of Unemployment," *Journal of Political Economy* 84, 937-958, 1976.

Feldstein, M. and D. Altman, "Unemployment Insurance Savings Accounts," *Tax Policy and the Economy*, vol. 21: 35-64, 2007.

Feldstein, M., "Rethinking Social Insurance" Presidential Address to the AEA annual meetings, *American Economic Review*, March 2005.

Finkelstein, A., J. Poterba, "Adverse Selection in Insurance Markets: Policyholder Evidence from the U.K. Annuity Market," *Journal of Political Economy*, 112, 183-208, 2004.

Gruber, J., "The Consumption Smoothing Benefits of Unemployment Insurance," *American Economic Review*, 87(1), 192-205, 1997.

Kroft, K. and M. Notowidigdo, "Should Unemployment Insurance Vary with the Unemployment Rate? Theory and Evidence," NBER Working Paper 17173, 2011.

Landais, C., P. Michaillat, and E. Saez, "Optimal Unemployment Insurance over the Business Cycle," NBER Working Paper 16526, 2010.

* Rothschild, M. and J. Stiglitz, "Equilibrium in Competitive Insurance Markets: An Essay in the Economics of Imperfect Information," *Quarterly Journal of Economics* 90, 629-649, 1976.

Shavell, S. and L. Weiss, "The Optimal Payment of Unemployment Insurance Benefits over Time," *Journal of Political Economy* 87, 1347-1362, 1979.

Shimer, R. and I. Werning, "Reservation Wages and Unemployment Insurance," *Quarterly Journal of Economics*, 122(3), 1145—1185, 2007.

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Weeks 6-7: Public Goods

Andreoni, J., "Privately Provided Public Goods in a Large Economy: The Limits to Altruism," *Journal of Public Economics* 35, 57-73, 1988.

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* Andreoni, J., "Giving with Impure Altruism: Applications to Charity and Ricardian Equivalence," *Journal of Political Economy* 97 (6), 1447-1458, 1989.

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Andreoni, J., "An Experimental Test of the Public Goods Crowding-Out Hypothesis," *American Economic Review* 83 (5), 1317-27, 1993.

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Besley, T. and S. Coate, "Public Provision of Private Goods and the Redistribution of Income," *American Economic Review* 81 (4), 979-984, 1991.

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Marwell, G. and R. Ames, "Economists Free-Ride, Does Anyone Else?" *Journal of Public Economics* 15, 295-310, 1981.

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Wilson, J., "Optimal Public Good Provision with Limited Lump-sum Taxation," *American Economic Review* 81, 1991, pp. 153-66.

Warr, P., "The Private Provision of a Pure Public Good is Independent of the Distribution of Income," *Economics Letters* 13, 207-211, 1983.

Weeks 7-8: Social Security

Abel, A., "Precautionary Saving and Accidental Bequests," *American Economic Review* 75, No. 4, 777-791, 1985.

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* Eckstein, Z., Eichenbaum, M., and D. Peled, "Uncertain Lifetimes and the Welfare Enhancing Properties of Annuity Markets and Social Security," *Journal of Public Economics* 26, 303-326, 1985.

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* Feldstein, M., "The Optimal Level of Social Security Benefits," *Quarterly Journal of Economics* 100 (2), 303-320, 1985.

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* Feldstein, M. and J. B. Liebman, "Social Security," Chapter 32 in *Handbook of Public Economics* (A. J. Auerbach and M. Feldstein, eds.), Vol. 4, Elsevier Science Publishers B. V. (North-Holland), 2003 (Also available as NBER Working Paper 8451).

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Milligan, K. and D. Wise, "Social Security and Retirement around the World: Historical Trends in Mortality and Health, Employment, and Disability Insurance Participation and Reforms - Introduction and Summary," *NBER Working Paper* No. 16719, 2011.

Mulligan, C. B. and X. Sala-i-Martin, "Social Security in Theory and Practice (I): Facts and Political Theories," *NBER Working Paper* No. 7118, 1999. Available at www.nber.org

Myles, Chapter 14.

Sala-i-Martin, X., "A Positive Theory of Social Security," *Journal of Economic Growth* 1, 277-304, 1996.

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Stiglitz, Chapter 14.

Weeks 9-10: Education

Altonji, J. and T. Dunn, "The Effects of Family Characteristics on the Return to Education", *Review of Economics and Statistics* 78 (4), 692-704, 1996.

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Barro, R. and J. Lee, "A New Data Set of Educational Attainment in the World, 1950-2010", NBER Working Paper 15902, 2010.

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* Epple, D. and R. E. Romano, "Ends against the Middle: Determining Public Service Provision when there are Private Alternatives," *Journal of Public Economics* 62, 297-325, 1996.

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* García-Peñalosa and K. Wälde, “Efficiency and Equity Effects of Subsidies to Higher Education,” *Oxford Economic Papers* 52, 702-722, 2000.

Garratt, R. and J. M. Marshall, “Public Finance of Private Goods: The Case of College Education,” *Journal of Political Economy* 102, 566-582, 1994.

Glomm, G. and B. Ravikumar, “Public versus Private Investment in Human Capital: Endogenous Growth and Income Inequality,” *Journal of Political Economy* 100, 813-834, 1992.

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Gradstein, M. and M. Justman, “Understanding Compulsory Schooling Legislation: A Formal Model and Implications for Empirical Analysis.” IZA Working Paper 4420, 2009.

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Heckman, J. J., “Skill Formation and the Economics of Investing in Disadvantaged Children,” *Science* 312, 1900-1902, 2006.

Heckman, J. J., L. J. Lochner, and P. E. Todd, “Earnings Functions, Rates of Return and Treatment Effects: The Mincer Equation and Beyond,” Chapter 7 in *Handbook of the Economics of Education* (E. Hanushek and F. Welch, editors), Volume 1, 307-458, 2006.

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Holmlund, H., M. Lindahl, and E. Plug, “The Causal Effect of Parents’ Schooling on Children’s Schooling: A Comparison of Estimation Methods,” CESifo Working Paper No. 3234, 2010.

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Jencks, Ch., "Whom Must we Treat Equally for Educational Opportunity to be Equal?" *Ethics* 98, 518-533, 1988.

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Lange, F. and R. Topel, "The Social Value of Education and Human Capital," Chapter 8 in *Handbook of the Economics of Education* (E. Hanushek and F. Welch, editors), Vol. 1, 459-509, 2006.

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* Lazear, E. P. "Educational Production," *Quarterly Journal of Economics* 116, 3, 777-803, 2001.

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