**ECON 242: PUBLIC FINANCE AND TAXATION II**

This course covers topics in the static and dynamic taxation of household and firms, fiscal policy, social insurance, and behavioral public finance. It also aims at developing theoretical, empirical and computational skills to address optimal policy issues. Lectures are on Tuesdays and Thursdays 9-10:50AM in Landau 206. Office hours are by appointment in Landau 335 (Bernheim) and 341 (Scheuer).

Problem sets are an important part of this course. You are encouraged to work on them in groups but must turn in your own individual work. Some lectures will be devoted to the problem sets and related material and methods. The final grade will be based on the problem sets and class participation.

**Reading List** (📖 = indispensable)

**TOPIC 1: OPTIMAL SOCIAL INSURANCE DESIGN (Scheuer)**

1.1 Competitive Insurance Markets with Adverse Selection

Prescott, E. and Townsend, R., Pareto Optima and Competitive Equilibria with Adverse Selection and Moral Hazard, *Econometrica* 1984  

1.2 Testing and Measuring Adverse Selection in Insurance Markets


1.3 Further Frictions in Private Insurance Markets from Hidden Trades, Aggregate Uncertainty and Limited Commitment

Ales, L. and Maziero, P., Non-Exclusive Dynamic Contracts, Competition, and the Limits of Insurance, working paper 2014
Allen, F., Repeated Principal Agent Relationships with Lending and Borrowing, *Economics Letters* 1985

1.4 Markets versus Governments and Optimal Social Insurance Design with Endogenous Insurance Markets

Netzer, N. and Scheuer, F., Competitive Markets without Commitment, *Journal of Political Economy* 2010

1.5 Identifying Statistics for Optimal Social Insurance Design

1.6 Optimal Social Insurance Design in the Context of Unemployment Insurance


Landais, C., Michaillat, P. and Saez, E., Optimal Unemployment Insurance over the Business Cycle, NBER working paper 2010


Shimer, R. and Werning, I., On the Optimal Timing of Benefits with Heterogeneous Workers and Human Capital Depreciation, NBER working paper 2006

Spinnewijn, J., Unemployed but Optimistic: Optimal Insurance Design with Biased Beliefs, working paper 2010

1.7 Optimal Social Insurance Design in the Context of Disability Insurance


1.8 Optimal Social Insurance Design in the Context of Social Security


1.9 Optimal Social Insurance Design in the Context of Health Insurance

Gruber, J., Covering the Uninsured in the US, *Journal of Economic Literature* 2008
**Topic 2: Optimal Static Taxation (Scheuer)**

**2.1 Nonlinear Income Taxation**


\[\text{\textcopyright} \text{WERNING, I., Pareto Efficient Income Taxation, MIT working paper 2007}\]

**2.2 Taxation under Extensive Margin Adjustments and Multidimensional Heterogeneity**


**2.3 Taxation of Top Incomes with Rent-Seeking**

LOCKWOOD, B., NATHANSON, C. and WEYL, G., Taxation and the Allocation of Talent, University of Chicago working paper 2013


\[\text{\textcopyright} \text{ROTHSCHILD, C. and SCHEUER, F., Optimal Taxation with Rent-Seeking, NBER working paper 2011}\]

**2.4 Linear and Mixed Taxation**


\[\text{\textcopyright} \text{CHARI, V. and KEHOE, P., Optimal Fiscal and Monetary Policy, Handbook of Macroeconomics 1999}\]

**Topic 3: Optimal Dynamic Taxation (Scheuer)**

### 3.1 Linear Capital Taxation


### 3.2 Fiscal Policy with Business Cycle Shocks

Farhi, E., Capital Taxation and Ownership when Markets are Incomplete, *Journal of Political Economy* 2010  

### 3.3 Nonlinear Capital Taxation

Werning, I., Nonlinear Capital Taxation, MIT working paper 2010
3.4 Taxation without Commitment

Scheuer, F. and Wolitzky, A., Capital Taxation under Political Constraints, NBER working paper 2014

3.5 Age Dependent Taxation over the Life Cycle

Stantcheva, S., Optimal Taxation and Human Capital Policies over the Life Cycle, MIT working paper 2014

3.6 Taxation of Intergenerational Transfers


**TOPIC 4: CORPORATE TAXATION (BERNHEIM)**

4.1 Taxes, Corporate Capital Structure, and Ownership


4.2 Taxes and Corporate Payout Policy


### 4.3 Taxes and Corporate Investment


**TOPIC 5: POLICIES AFFECTING PERSONAL FINANCIAL DECISIONS (BERNHEIM)**

5.1 The responsiveness of saving to financial incentives

5.1.1 Critical surveys


5.1.2 IRAs and 401(k)s


5.1.3 Experiments


5.2 Behavioral aspects of policies impacting personal saving


### 5.3 The effect of taxation on portfolio choice


