ECON 241: PUBLIC FINANCE AND TAXATION I

This course covers topics in the optimal design of tax and transfer policy, income and wealth inequality and its policy implications, the empirical effect of taxes on earnings and savings, fiscal and debt policy, social mobility and the dynamics of taxation, public finance issues in developing countries, and the political economy of inequality and tax policy. It also aims at familiarizing you with the frontier theoretical, empirical and computational tools that are currently used to address economic policy questions.

Lectures are on Tuesdays and Thursdays 9:30-11:20AM in Landau 218. Office hours are by appointment in SIEPR 222 (Best) and Landau 341 (Scheuer).

Problem sets, a referee report, and class presentations are an important part of this course. We will have 2 problem sets that will help you to deepen your understanding of the theoretical concepts introduced in the lectures. You will also write one referee report on a paper to be assigned. 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. Finally, in each of the empirical lectures, the final 40 minutes will be set aside for a student presentation of one of the key papers (each week’s paper is marked with a \( \square \) below). The final grade will be based on the problem sets, referee report, class presentations, and class participation.

Reading List (\( \bigstar \) = indispensable) (\( \square \) = class presentation paper)

**TOPIC 1: EFFICIENCY COSTS OF TAXATION, TAX INCIDENCE, COMMODITY TAXATION**

1.1 Efficiency Costs of Taxation


1.2 Tax Incidence

Theory


**Empirics**


**1.3 Optimal Commodity Taxation**


**1.4 Externalities and Corrective Taxation**


**Empirics**


Case Study: Gasoline Taxes and Fuel Economy

**Topic 2: Income Taxation, Labor Supply and the Elasticity of Taxable Income**

*2.1 Optimal Income Taxation*

Scheuer, F. and Werning, I., Mirrlees meets Diamond-Mirrlees, NBER working paper 2016
Werning, I., Pareto Efficient Income Taxation, MIT working paper 2007

*2.2 Taxation and Labor Supply*

2.3 Tax Rates and Taxable Income

2.4 Income Inequality


2.5 Optimal Income Taxation—Extensions: Extensive Margin, Multidimensional Heterogeneity, and General Equilibrium

Scheuer, F. and Werning, I. Mirrlees meets Diamond-Mirrlees, NBER working paper 2016

2.6 The Taxation of Top Incomes

Theory
Ales, L. and Sleet, C., Taxing the Top, Carnegie Mellon working paper 2015
Lockwood, B., Nathanson, C. and Weyl, G., Taxation and the Allocation of Talent, University of Chicago working paper 2013
Rothschild, C. and Schuerer, F., Optimal Taxation with Rent-Seeking, *forthcoming, Review of Economic Studies*
Scheuer, F. and Werning, I., The Taxation of Superstars, NBER working paper 2015
Empirics
- Moretti, E. & Wilson, D. The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists, 2015, Mimeo: UC Berkeley

**Topic 3: Production Efficiency and Mixed Taxation**

Theory

Empirics

**Topic 4: Capital and Bequest Taxation, Savings, and Wealth Inequality**

4.1 Optimal Linear Capital Taxation

- Straub, L. and Werning, I., Positive Long-Run Capital Taxation: Chamley-Judd Revisited, MIT working paper 2014
4.2 Taxation and Savings: Empirics


4.3 Taxation over the Life Cycle


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


4.4 Taxation of Intergenerational Transfers: Theory


4.5 Bequests, Wealth Inequality, and Intergenerational Mobility: Empirics


Kopczuk, W., What Do We Know About the Evolution of Top Wealth Shares in the United States? Journal of Economic Perspectives, 2015, 29(1), 47-66

4.6 Fiscal Policy with Business Cycle Shocks


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


Werning, I., Optimal Fiscal Policy with Redistribution, Quarterly Journal of Economics 2007

4.7 Nonlinear Capital Taxation


4.8 Political Economy of Capital Taxation and Wealth Inequality