Public economics studies the role of the government in a market economy and the implications of its actions for the citizenry. The underlying structure is one of a decentralized economy wherein economic decisions are coordinated through prices (which in turn are determined by free, but sometimes regulated, markets). Additionally, the public sector itself typically plays a significant role in these market economies. Public economics examines why the government may have to supplement the market mechanism. It evaluates the efficiency and equity justifications for an intervention and their ramifications for individuals’ incentives and welfare. It also studies what form the interventions should take and how policies ought to be designed.

The field is large, with significant theoretical and empirical components. This course provides an introduction to the field of public economics. The emphasis of this course is on the theory. It covers core ideas in the areas of static and dynamic taxation, externalities, public goods and publicly-provided private goods. These include classical material, as you need to know the foundation, and the more recent developments in these areas in order to appreciate some of the contemporary research. The course addresses both positive and normative questions and combines methodological and applied issues.

I start with topics framed in static settings. They include: theory and measurement of efficiency costs of taxation, tax incidence, optimal commodity taxation, optimal income taxation, the theory of tax design, in-kind transfers, taxation of externalities, taxation and labor supply, tax evasion, and optimal provision of public goods in a second-best setting. Then we turn to dynamic settings and study the effects of taxation on savings and capital accumulation as well as revisiting incidence and optimal tax issues. In this context, the competing frameworks of dynastic families and overlapping-generations will both be studied.

**Readings:** There is no required text for this course. The readings include a number of surveys, and some classic articles as well as more recent contributions.

**Course grade:** There will be a few sets of homeworks and a final.

**Final:** Scheduled for …
Undergraduate textbooks:


Graduate textbooks and surveys:


A useful and informative book on taxation:


**Topics of Discussion**

0. **Overview of the field**

1. **“Welfare Economics” and efficiency loss of taxation**
   1.1 **Background**
      B. Salanié, *The Economics of Taxation*, Appendixes.
   1.2 **Theory**
      B. Salanié, *The Economics of Taxation*, Chapter 1.
   1.3 **Measurement**

2. **Tax Incidence**
   2.1 **Competitive Markets**
2.2 **Imperfect Competition**


3. **Optimal Taxation**

3.1. **Optimal Commodity Taxation**


B. Salanié, *The Economics of Taxation*, Chapter 3.


3.2 **Optimal Income Taxation**

B. Salanié, *The Economics of Taxation*, Chapter 4.


E Saez, Optimal income transfer programs: intensive versus extensive labor supply responses, Quarterly Journal of Economics, August 2002 1039—1073.


3.3. Optimal Tax Design

B. Salanié, The Economics of Taxation, Chapter 5.

3.4. Tagging

3.5. *Nontax instruments*


4. **Public Goods**


5. **Externalities**


5.1 **Optimal Taxation and Externalities**

B. Salanié, *The Economics of Taxation*, Chapter 7 and Chapter 10.


6. Family Taxation


7. Taxation and Labor Supply


8. Tax Evasion

Jonathan Shaw, Joel Slemrod, and John Whiting. Administration and Compliance, Dimensions of Tax Design: the Mirrlees Review.


9. **Taxation in Dynamic Settings**

9.1 **Overview**


9.2 **Tax Incidence in Dynamic Models**


9.3 **Optimal Taxation of Capital**


9.4 **Tax Policy, Rates of Return, and Saving**


9.5 **New Dynamic Public Finance**


9.6 **Optimal money supply**


