

## Public economics

Pascal Belan and Laurence Jacquet

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### Objectives:

In this course, we will study how taxation affects economic behavior (e.g., labor supply, savings decisions) and economic equilibrium (tax incidence). We will also discuss behavioral responses to taxes and transfers and the optimality arguments for a wide range of government instruments in the presence of informational imperfections and other distortions. Policies that will be studied are: indirect taxation, the taxation of capital, nonlinear taxation of income and the provision of public goods.

### Outline:

#### **Part I: Fiscal incidence, indirect taxation and capital taxation (Pascal Belan)**

Chapter 1 : Fiscal Incidence

Chapter 2 : Indirect Taxation

Chapter 3 : Capital taxation

References:

- Salanie, B., Economics of taxation, MIT Press, 2011. Chapters 1, 2, 3, 5.
- Myles, G., Public Economics, Cambridge University Press, 1995. Chapters 2, 4, 8.

#### **Part II: Labor income taxation and transfer programs, Public goods (Laurence Jacquet)**

For each topic, we combine theoretical models with empirical evidence. Each lecture is posted in pdf format with linked references.

Chapter 1: Optimal labor income taxation and transfer programs

A couple of main references:

- Diamond, P. (1998), Optimal income taxation: An example with a U-shaped pattern of optimal marginal tax rates, *American Economic Review*, 88(1), 83-95.
- Jacquet, L., Lehmann, E. and Van der Linden, B. (2013), The optimal marginal tax rates with both extensive and intensive responses, *Journal of Economic Theory*, 148(5): 1770-1805.
- Piketty, T. and Saez, E. (2013), Optimal Labor Income Taxation, *Handbook of Public Economics*, 5, 391-474.
- Saez, E. (2001), Using elasticities to derive optimal income tax rates, *Review of Economics*

Studies, 68, 205-229.

- Stiglitz, J. (1982), Self-selection and Pareto efficient taxation, Journal of Public Economics, 17, 49-68.

## Chapter 2: Public goods

- Definitions and Baseline Model,
- Samuelson Rule,
- Public Goods with Endogenous Private Provision,
- Public Goods with Distortionary Taxation

A couple of main references:

- Bergstrom, T., Blume, L. and H. Varian, 1986, On the Private Provision of Public Goods, Journal of Public Economics, 29, 1986, 25-49.
- Hungerman, D., 2005, Are Church and State Substitutes? Evidence from the 1996 Welfare Reform, Journal of Public Economics, 89, 2245-2267.

### **Evaluation:**

Rule: " $\frac{1}{2}$  CC +  $\frac{1}{2}$  CT".

"CC": "contrôle continu" = mid-term evaluation

"CT": "contrôle terminal" = final evaluation

CC: In each part of the course, students are invited to present a research article in front of the class and to raise questions and make comments after the presentations of their classmates.

CT: An exam at the end of the term. More details will be provided during the class.