

Optimal Policy

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Syllabus

Course Description

This class will provide the basic tools to analyze problems involving policy interventions. In this sense, it is like a toolkit that should allow the students to deepen their knowledge with more specific problems.

There are two types of problems and two types of approaches to study optimal taxation. The problems are in general divided between 1) finding the optimal way to finance a given level of government spending and 2) determining the level of taxation that balances the trade-off between efficiency and redistribution.

These problems can be analyzed using the Classical Public Finance approach, where the government is endowed with restricted set of instruments; or the New Public Finance approach, which endows the policy makers with an unrestricted set of instruments, but models underlying frictions that impede the application of the first welfare theorem.

Lecture's plan.

Week 1: Basics on taxation. Setting up a problem and initial results.

Lecture 1 A static problem. Writing down a “Ramsey Problem.”

Lecture 2: Elasticities and taxation in static economies.

Lecture 3: Taxation of intermediate goods, the case of money holdings.

Week 2: Optimal taxation in the Neoclassical growth model.

Lecture 1: Capital and labor taxation.

Lecture 2: Zero capital taxation in the long run, and when it fails.

Lecture 3: Optimal taxation and government debt: the optimality of negative debt.

Week 3: Redistribution and the Mirrlees approach.

Lecture 1: Redistribution with an unrestricted set of instruments.

Lecture 2: An analytical framework to study progressivity.

Lecture 3: Fiscal Rules in political economy models.

References (some, not of all them)

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