

# Doctoral Program in Economics



Academic year 2020/21

## PUBLIC ECONOMICS

**Period:** Second term: February 15th – April 9th 2021

**Course hours:** 20 hrs

**Teachers:** Massimo D'Antoni (12 hrs), Lisa Grazzini (8 hrs)

**Exam methods:** written examination

**Prerequisites:** advanced microeconomics (analysis of consumer's choice, demand function and duality in consumption, basic welfare economics, economic analysis of perfectly and imperfectly competitive markets), mathematics (techniques of nonlinear optimisation)

### Module I . The theory of taxation and public policy (prof D'Antoni)

#### Programme

- Public economics, efficiency and social welfare
- The distortionary effect of taxation
- Optimal income taxation and the debate on progressive taxation
- Commodity taxation (with linear and non linear income taxation)
- Efficiency and equity of policies in second best

#### Educational objectives

The module is aimed at introducing some basic concepts and analytical tools of public economics, such as the distortionary effect of taxation and the optimal trade-off between redistribution and efficiency. More in general, emphasis is given to the conditions for a separation between equity and efficiency in theoretical and applied economics.

#### Bibliographical references

##### TEXTBOOKS:

A. B. Atkinson & J. E. Stiglitz. (1980). Lectures on public economics. London: McGraw-Hill. (Chapters 11-14 and 16).

L. Kaplow. (2008). The theory of taxation and public economics. Princeton: Princeton University Press.

J. Hindriks & G. D. Myles. (2013). Intermediate public economics. 2nd ed. Cambridge, Mass.: MIT Press.

##### ARTICLES:

A. J. Auerbach & J. R. Hines. (2002). Taxation and economic efficiency. In A. J. Auerbach & M. Feldstein (eds.), Handbook of public economics. Vol. 3 (pp. 1347–421). Amsterdam: Elsevier. (Only § 1-5).

C. L. Ballard & D. Fullerton. (1992). Distortionary taxes and the provision of public goods. Journal of Economic Perspectives, 6, 117–31.

C. Blackorby. (1990). Economic policy in a second-best environment. Canadian Journal of Economics, 23, 748–71.

- P. Diamond & J. Mirrlees. (1971). Optimal taxation and public production II: tax rules. *American Economic Review*, 61, 261–78.
- P. Diamond & E. Saez. (2011). The case for a progressive tax: from basic research to policy recommendation. *Journal of Economic Perspectives*, 25, 165–90.
- M. Feldstein. (1995). The effect of marginal tax rates on taxable income: a panel study of the 1986 Tax Reform Act. *Journal of Political Economy*, 103, 551–72.
- L. Kaplow. (1996). The optimal supply of public goods and the distortionary cost of taxation. *National Tax Journal*, 49, 513–33.
- L. Kaplow. (2004). On the (ir)relevance of distribution and labour supply distortion to government policy. *Journal of Economic Perspectives*, 18, 159–75.
- L. Kaplow. (2006). On the undesirability of commodity taxation even when income taxation is not optimal. *Journal of Public Economics*, 90, 1235–50.
- G. R. Laroque. (2005). Indirect taxation is superfluous under separability and taste homogeneity: a simple proof. *Economics Letters*, 87, 141–4.
- T. Piketty & E. Saez. (2013). Optimal labor income taxation. In A. J. Auerbach et al. (eds.), *Handbook of Public Economics*. Vol. 5 (pp. 391–474). Amsterdam: Elsevier.
- J. Slemrod. (1998). Methodological issues in measuring and interpreting taxable income elasticities. *National Tax Journal*, 51, 773–88.
- J. E. Stiglitz. (1987). Pareto efficient and optimal taxation and the new new welfare economics. In A. J. Auerbach & M. Feldstein (eds.), *Handbook of public economics* (pp. 991–1042). Amsterdam: North Holland.
- J. E. Stiglitz. (2015). In praise of Frank Ramsey’s contribution to the theory of taxation. *Economic Journal*, 125, 235–68.

## **Module II. Fiscal Competition and Public Policy (prof. Grazzini)**

### **Programme**

- Fiscal Competition and the International Principles of Taxation
- International Capital Tax Competition
- Fiscal Federalism for Multi-level Governments

### **Educational objectives**

This module is aimed at introducing some basic concepts and analytical tools to study taxation issues both in highly integrated international set-ups and in federal countries. Efficiency and distributional aspects of fiscal competition among countries or regions of a federal country will be presented. Special emphasis will be devoted to the question of how the mobility of tax bases may put a downward pressure on public expenditures and, more generally, how horizontal and vertical tax externalities may affect fiscal policies.

### **Bibliographical references**

#### TEXTBOOKS:

- J. Hindriks & G. D. Myles. (2013). *Intermediate public economics*. 2nd ed. Cambridge, Mass.: MIT Press, ch. 19, 20, 21.
- Keen, M., Konrad, K.A. (2013), *The Theory of International Tax Competition and Coordination*, in *Handbook of Public Economics*, Alan J. Auerbach, Raj Chetty, Martin Feldstein and Emmanuel Saez (eds.), vol. V, Amsterdam, North Holland Elsevier, 257-328.
- Wellisch, D. (2000), *Public Finance in a Federal State*, Cambridge, Cambridge University Press.

#### ARTICLES:

- Bucovetsky, S., Haufler, A. (2007), *Preferential Tax Regimes with Asymmetric Countries*, *National Tax Journal*, 60:4, 789-795.
- EEAG (2020), *EEAG Report on the European Economy*, CESifo, Munich.
- Genschel, P., Schwarz, P. (2011), *Tax Competition: A Literature Review*, *Socio-Economic Review*, 9, 339-370.

- Keen, M. J. (1998), Vertical Tax Externalities in the Theory of Fiscal Federalism, *International Monetary Fund Staff Papers*, 45(3), 454-485.
- Keen, M. (2001), Preferential Regimes Can Make Tax Competition Less Harmful, *National Tax Journal*, 54:4, 757-762.
- Keen M., Kotsogiannis C. (2002), Does Federalism Lead to Excessively High Taxes?, *American Economic Review*, 363-70.
- Persson, T., Tabellini, G. (1992), The Politics of 1992: Fiscal Policy and European Integration, *Review of Economic Studies*, 59, 689-701.
- Wilson, J. D. (1999), Theories of Tax Competition, *National Tax Journal*, 2, 269-304.
- Zodrow, G.R. (2010), Capital Mobility and Capital Tax Competition, *National Tax Journal*, 63, 4:2, 865-902.
- Zodrow, G., Mieszokowski, P. (1986), Pigou, Tiebout, Property Taxation and the Underprovision of Local Public Goods, *Journal of Urban Economics*, 19(3), 356-370.