

Doctoral Program in Economics



Academic year 2023/24

PUBLIC ECONOMICS

Period: fourth term (March and April 2024)

Course hours: 20 hrs

Teachers: Massimo D'Antoni (12 hrs) and 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. Introduction to Optimal Taxation (prof. D'Antoni)

Programme

- The Distortionary Effect of Taxation
- Efficient Commodity Taxation
- Optimal income taxation
- The Joint Use of Income and Commodity Taxation
- The Role of Equity in the Design of Public Policies

Educational objectives

This course introduces students to the economic analysis of taxation, considering both its efficiency and equity dimensions. Students will learn about basic models of optimal taxation, such as the Ramsey model of commodity taxation and the Mirrlees framework for analyzing the optimal income tax rate. The course will take a primarily theoretical approach, but will also reference key empirical techniques and findings. The course will emphasize the circumstances under which equity and efficiency goals can be considered separately, both analytically and in practice. In doing so, the course's conclusions will extend beyond the realm of taxation in a strict sense.

Bibliographic 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.

OTHER REFERENCES

- 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*. Vol. 2 (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.