PUBLIC ECONOMICS

1. Outline of courses on the programme of study

In the broadest interpretation, public economics is the study of economic policy, with particular emphasis upon taxation. Expenditure taxes, personal income taxes and corporate profits taxes (including tax evasion and fiscal deficits) are, therefore, analyzed and their effects on individual incentives and economic performance are considered. The subject therefore encompasses topics as diverse as responses to market failure due to the existence of public goods and externalities and the determination of optimal social policies. This characterization reflects an extension of the scope of public economics from its initial emphasis upon the collection and disbursement of government revenues to its present concern with all aspects of government economic intervention. The intention of this thirteen-week course in each of the two semesters is to provide an introduction to the vast literature of public economics, emphasizing the foundations upon which future research can be laid.

The theory that is described in the chapters to be studied has developed mainly since 1970 and has built upon developments in microeconomics, macroeconomics and general equilibrium theory. One of its characteristic features is the use of duality techniques to allow problems to be phrased in the manner most amenable to solution. These techniques permit optimization exercises to be phrased in terms of the natural choice variables. The use of duality theory has also allowed many problems to be studied with great generality and has often overcome the need to impose restrictive sets of assumptions. A second characteristic feature is the consistent use of general equilibrium theory to provide a rigorous foundation for the policy analysis. A general equilibrium analysis of policy captures both the direct effects of policy and the secondary effects. As the latter may well outweigh the former, a convincing policy analysis cannot be conducted except within a general equilibrium context. These underlying methods of duality and general equilibrium provide the cohesion to what at first glance may appear to be a number of disparate topics.

2. Analytical Syllabus for the UADPhilEcon (for both semesters)

Commodity taxation:

- The Ramsey rule (derivation, implications, inverse elasticities rule).
- Extension to many households (optimal tax rule, applications).
- Generalizing the production technology.
- Untaxed goods, uniform taxes, production efficiency.

Income taxation:

- The Mirrlees economy (basic structure, the structure of utility).
- Optimal tax function (linear taxation, non-linear taxation, effects on labour supply).
- Extensions (two forms of labour, income and commodity taxes).

Corporate taxation:

- Taxation of the firm (profit tax, personal taxes).
- Tax incidence (Harberger economy, income effects).
- Taxation and Finance (systems of corporate and personal taxation, finance and investment with certainty, uncertainty).

Public goods and externalities:

- Optimal provision (pure public goods, free disposal, congestion).
- Personalized prices and the Lindahl equilibrium.
- Finance by taxation (identical consumers, differentiated households).
- Market inefficiency and externalities.
- The Coase theorem (markets for externalities, non-existence of markets, bargaining).

Tax evasion:

- Evasion as a decision with risk.
- Evasion and labour supply.
- Evasion and its effects on the supply of public goods.

- Optimal auditing with an independent Revenue Service.
- Evasion by firms.
- Optimal taxation with evasion.

Debt and taxation:

- The effects of debt.
- Optimal lump-sum taxation and debt.
- Debt neutrality.
- Income and interest taxation.

3.Bibliography

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